EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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Thursday December 12 1991

D 8523A

CHICKENS
Exports fatten the Brazilian farmer
Page 26

World News

Japanese premier in political trouble

Japanese prime minister Kiichi Miyazawa is in serious political trouble after just six weeks in office.

He came to power pledging to increase Japan's contribution to the international community, to keep Japanese politics clean, and to bring a sense of direction to the government. However, enemies in the ruling Liberal Democratic party are already asking whether he will last his full two-year term in office. Page 16

Tibetans tear-gassed
Police tear-gassed and detained Tibetan protesters as India *sought to head off any threat* to visiting Chinese prime minister Li Peng. Page 8

March of the militants
Hindu militants launched a 14,000 km march across India that both the government and most political parties fear could trigger fresh Hindu-Moslem riots. Page 8

Islamic scholar killed
Guerrillas fighting the Afghan government have killed a prominent Islamic scholar in Kandahar province, said official Kabul Radio. Seventy-year-old Maulvi Mohammad Omar Osmanzai was killed in the southern province's Daulatabad region said the broadcast.

Radioactive steel
Urgent measures are being taken by at least two of Britain's leading steelmakers to prevent radioactive steel scrap from eastern Europe finding its way into their products. The steelmakers are installing special gantries equipped with Geiger counters to test incoming loads. Page 16

Guinean rights violated
Basic human rights are still being violated in Guinea, seven years after a new government promised to end abuses carried out by the West African state's former dictator, Sekou Toure, said human rights group Amnesty International.

UN air lift to S Africa
The UN began a huge airlift to repatriate 30,000 South Africans who remain in guerrilla bases and farming and education centres in neighbouring African states, with the first flight bringing home 120 political exiles from Tanzania.

Albanian turmoil
Albania has appointed non-partisan technocrat Vilson Ahmeti, a 40-year-old engineer and former food minister, to head a new government grappling with political turmoil and economic disintegration.

Croatian plea to Bush
Croatian President Franjo Tudjman has appealed to the US to back independence for his breakaway republic and criticised economic sanctions on all Yugoslavia.

Iran urges reparations
Iran urged reparations to Tehran following a UN report blaming Baghdad for starting the 1980-88 Iran-Iraq war. Up to a million people were killed or wounded in the war.

Ballot begins at FT
Financial Times journalists began balloting on industrial action following management proposals to consider retiring nine employees compulsorily on *health grounds. The result* of the ballot is expected on Tuesday. Page 12

Mitterrand hits new low
President Francois Mitterrand's popularity has sunk to its lowest since he took *office in 1981, according to an* opinion poll in L'Express. Only 29 per cent were in favour of Mitterrand's performance while 58 per cent said they disapproved. Prime minister Edith Cresson fared no better – 54 per cent wanted Mitterrand to sack her.

Business Summary

EC protocol could boost pensions industry

European Community has quietly approved a protocol *to the Treaty of Rome which* could save the European pensions industry billions of pounds that it might have had *to pay out in an effort to pro*vide equal pension benefits to men and women.

The protocol, part of the political agreement at the Maastricht summit, says companies will not be required to provide equal pension benefits for men and women for any period of service before May 17 1990. Page 16

JAPAN'S trade surplus rose last month to an unadjusted \$6.55bn, increasing Tokyo's fears of friction with the US and the European Community over their deepening deficits with Japan. Page 16

JAPANESE companies are likely to account for at least 40 per cent of the world's car and truck production by the end of the decade, according to an FT management report on the Japanese automotive industry. Page 7

NATIONAL Semiconductor, struggling Silicon Valley computer chip-maker, unveiled improved profits for its second quarter despite reduced revenues. National reported net earnings of \$5.9m, or 3 cents a share. Page 18

SIB report: The structure of London's integrated securities *houses, created at the time* of Big Bang five years ago, is called into serious question for the first time by a discussion paper due to be published by the Securities and Investments Board. Page 17

ANGLO UNITED, owner of the *Coalite smokeless fuel* business, is to sell non-core businesses to cut debt as it maintains hopes of buying British *Coal, which the government* has said it intends to privatise. Page 17

FAIRFAX: The sale of Australia's Fairfax newspaper group moved a step closer to completion as the four bidders submitted final offers to Mr Des Nicholl, the receiver appointed by the group's creditors to handle the sale. Page 18

FERRANTI International, troubled electronics group, saw pre-tax losses rise by £8.4m to £28.8m (\$51.8m) in the six months to September 30. Page 21

LONRHO group, trading conglomerate headed by Tiny Rowland, is negotiating to sell its 50 per cent stake in Kuehne & Nagel, the international freight and warehousing company, in a deal that could be worth more than £100m. Page 17

FISONS, UK *pharmaceuticals* company, shocked analysts with an announcement that it had lost £65m (\$117m) since *the US Food and Drugs Admin*istration decided to ban the import of two of its products. Page 17; Lex, Page 18

PLYSU, plastic packaging and housewares manufacturer, was helped by strong growth in the Netherlands to a 20 per cent rise in interim profits. Pre-tax profits for the 28 weeks to October 11 were £4.8m (\$8.6m) against £4m. Page 24

UK CURRENT ACCOUNT deficit in the first nine months of 1991 was £4.1bn (\$7.4bn), some £1bn less than previously *thought, thanks to higher earn*ings from services and financial payments, according to government figures.

US PAPER industry is expected to continue expanding over the next three years, but at a lower pace than this year's *3 per cent increase.* Page 18

GRANADA, UK leisure, television and computer services group, as expected announced a sharp drop in profits to £57m (\$102.6m) compared with more than £120m pre-tax in 1990. Page 23

Republics turn to Yeltsin as pace of dissolution increases

Gorbachev runs out of allies

By John Lloyd in Moscow

MR Boris Yeltsin, the Russian *president*, yesterday strengthened his hand in his struggle with Mr Mikhail Gorbachev, the Soviet leader, over the *future of the Soviet republics.*

He gave confident performances before international economists who are advising *him on reforms,* and before army chiefs to whom he presented his vision of the future.

Several republics indicated a *desire to negotiate entry into* the new Commonwealth of Independent States which Mr Yeltsin, with the Ukrainian and Belorussian leaders, put together over the weekend.

President Nursultan Nazarbayev of Kazakhstan yesterday discussed the possibility of his country joining the commonwealth during a telephone conversation with Mr Gennady *Burbulis,* Russian first deputy prime minister. Kazakhstan is the only republic outside the new commonwealth with strategic nuclear weapons.

Mr Gorbachev, still titular leader of what is still titularly the Soviet Union, now appears *without allies – except for the* hardline groups who wish to retain an imperial or communist power, and democrats *fearful of the speed of dissolution.*

On Monday, Mr Nazarbayev sided with Mr Gorbachev and supported his continued efforts to sign a union treaty. The threatened defection of Mr Gorbachev's key, and perhaps only, republican ally, leaves him more exposed than ever – though still apparently unwilling to concede defeat.

The republics of Armenia and *Moldova* have also indicated interest in joining the new grouping, while the Baltic states, together with Georgia, *have welcomed its creation.*

General Valery Manilov, defence ministry spokesman, said Mr Yeltsin had told the senior officers *that "a split of* the armed forces is out of the question; the international public need not worry".

The general said that in the meeting – held in a "warm and collegiate" atmosphere – Mr Yeltsin gave assurances that the army would be adequately paid and supplied. Mr Gorbachev put his case to army commanders on Tuesday.

Mr Yeltsin met the group of international economists led by Professor Jeffrey Sachs of Harvard to discuss the main *elements of the Russian reform* package, to be introduced on January 2.

Professor Sachs said after the meeting that the Russian president had been "absolutely, fully, enthusiastically" behind a strategy which will free the prices of most commodities and make a determined attack on both inflation and the budget deficit.

Mr Yeltsin's enthusiasm appeared not to be dented even when the Harvard professor told him that he could not – as he had hoped – put a stop to hyperinflation (defined as 50 per cent or more a month) because it had already arrived, and would worsen in January.

The main elements of the package include:

- The goal of reducing the combined budget deficits of Russia and the USSR from several hundred billion roubles to *zero in the first quarter of 1992.*
- The Russian central bank would take on the responsibilities of the USSR State Bank *(Gosbank).* This would be followed by sharp cuts in the money supply and in the volume of credits now being *advanced to companies.*
- Big cuts in social programmes, military procurement and investment.
- The creation of a value added tax, set at 28 per cent, and the increase in payroll taxes.

EC envoy finds Moscow cupboards bare, Page 8

EC heads take the summit message home

By David White in Brussels, Robert Graham in Rome and Quentin Peel in Bonn

EUROPEAN Community leaders yesterday began the difficult task of winning domestic support for the politi*cal and monetary union accord* agreed at the Maastricht summit.

The meeting came to an extraordinary climax in the early hours of Wednesday morning when EC leaders clinched an agreement, although Britain parted company with its 11 EC partners on social policy.

The 11 agreed to pursue their social policy ambitions separately from the UK. As a result Britain's partners will make future labour regulations through regular EC institutions but with Britain abstaining in the Council of Ministers. The regulations will therefore not affect the UK.

For EC leaders who returned home yesterday amid relief at reaching the accord, the toughest decisions are still to come.

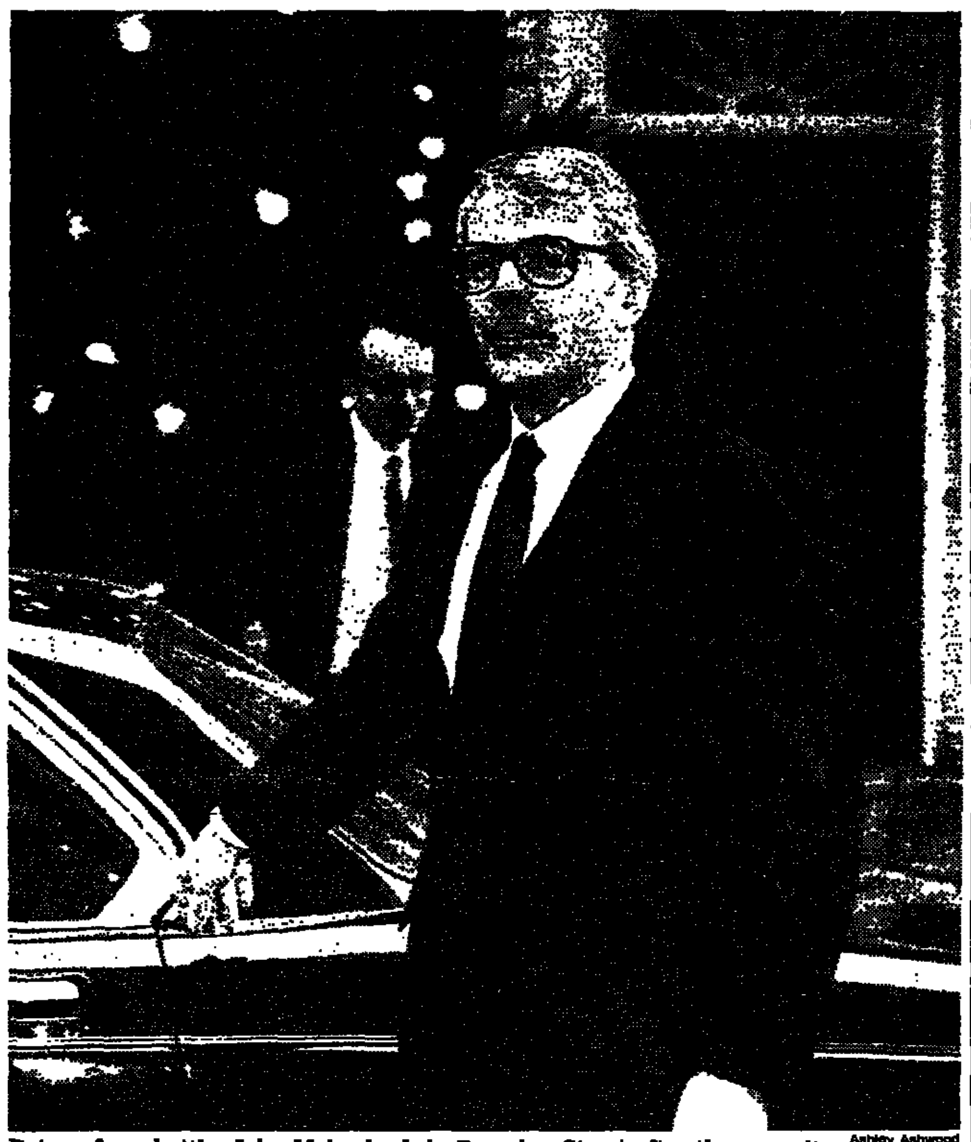
Popular German newspapers stepped up their tidings of woe over the incipient demise of the D-Mark.

In Italy, the country's notoriously free-spending politicians braced themselves for the challenge of meeting the severe economic conditions inscribed *in the treaty on European* monetary union (Emu).

In Germany, Chancellor Helmut Kohl brushed aside domes*tic criticism* that the EC deal did not go far enough to meet Germany's aspirations on political union. "If I weren't satisfied now, when could I ever be? We have made enormous progress," he declared.

Mr Kohl's robust statement

Continued on Page 16



Return from battle: John Major back in Downing Street after the summit   Ashley Ashwood

US and EC step up efforts to end farm subsidy row

By William Dullforce in Geneva

US PRESIDENT George Bush, European Community heads of government and Mr Arthur Dunkel, director general of the General Agreement on Tariffs and Trade, yesterday stepped up efforts to break the deadlock over farm subsidies between the EC and the US and to bring to a climax five years of international trade talks.

Mr Bush has spoken by telephone in the past two days with Dutch prime minister Ruud Lubbers, the current EC president, British prime minister John Major and German Chancellor Helmut Kohl, as EC and US farm negotiators continued to struggled to close gaps in their positions on how to reduce subsidies over the next five years.

In Geneva Mr Dunkel told *heads of delegations to the* Uruguay Round that on December 20 he would table a "draft final act" containing texts of agreements in all the subjects under negotiation, including agriculture. If governments did not come to terms themselves within a week, Mr Dunkel and the chairmen of the seven negotiating groups would write their own texts.

In what is effectively a take-it-or-leave-it move, Mr Dunkel said that the 108 governments engaged in Gatt's biggest *trade-liberalising exercise yet* should convene in Geneva on January 13 to decide whether or not to accept the package.

Separately, he told senior farm negotiators from eight leading farm exporters, including the EC and US, that he would "put the numbers into" the draft farm agreement to be tabled on December 20, if they did not come to terms.

Mr Dunkel made his move as other farm-exporting nations, notably the 14 members of the Cairns Group led by Australia, voiced growing exasperation over the *failure of the EC* and US to settle their differences.

In the most crucial issue, *export subsidies, the gap* appears to be small. The US is calling for a reduction to 11m tonnes in EC subsidised wheat *on the world market at the end* of five years; Brussels has offered 13m to 15m tonnes. A compromise could lead to understandings over cuts in border barriers and domestic supports.

Background, Page 8

Banks take legal advice over MCC share trading

By Bronwen Maddox and Richard Waters in London

SEVERAL big banks facing huge losses on loans to Maxwell companies are taking legal advice on whether they have a case against directors of Maxwell Communication Corporation, its financial advisers and the London Stock Exchange.

Legal action would focus on the question of if there was a *failure effectively to monitor* trading in MCC shares in the year before Mr Robert Maxwell's death.

The banks took MCC's shares as collateral on loans to Mr Maxwell's private companies. Revelations since Mr Maxwell's death of the way he funnelled cash out of MCC mean that these shares are almost certainly worthless.

MCC investors and debtholders point to large and unexplained movements in the MCC share price since August 1990.

Bankers *investigating the* disappearance of more than £700m (\$1.26bn) from the public companies and their pension funds into the "black hole" of the private companies suspect that Mr Maxwell may have engaged in further, unrevealed share support operations.

The main bankers to the Maxwell private businesses *who took MCC shares as collat*eral are Lloyds, National Westminster and Midland, of the UK, Citibank of the US and *Credit Suisse.*

Their concerns about the supervision of Mr Maxwell's companies have been strengthened by the revelation that the publisher may at the time of his death have been breaching one of the Stock Exchange's basic rules by controlling more than 75 per cent of MCC.

They say Mr Maxwell, who died on November 5, may have controlled as much as 82 per cent of MCC – well above the limit permitted by Stock Exchange rules. These stipulate that at least 25 per cent of *a quoted company's shares* must be independently owned.

Banks, which may be owed as much as £3bn by both the public and private Maxwell companies, say their immediate priority is to work out how much *they can salvage* from the collapse of the private companies.

They recognise, however, *that they may only recover* half the £1.5bn they have lent to the private companies.

In other developments yesterday:

- London & Bishopsgate International Inc., the New York-based fund manager that was 60 per cent owned by Mr Robert Maxwell, said yesterday that about \$90m of client funds have been withdrawn in the past fortnight by its clients as a result of adverse publicity surrounding the crumbling Maxwell empire.
- The Maxwell family's Daily News, the loss-making New York tabloid that last week filed for bankruptcy, disclosed that a pension plan for managers that had been promised by Mr Maxwell was never set up.

Confidential reports, Page 22

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Japan's premier falters despite good intentions

After just six weeks in office, the Japanese prime minister Kiichi Miyazawa (left), is faltering badly. His enemies in the ruling Liberal Democratic party are asking whether he will last his full two-year term Page 16

MARKETS

STERLING
New York lunchtime:
\$1.807
London:
\$1.81 (1.808)
DM2.8525 (2.85)
FFr9.7425 (9.74)
SFr2.52 (2.5225)
Y233.75 (232.5)
£ Index 91.0 (90.8)

GOLD
New York Comex Feb
\$368.8 (371.1)
London:
\$368.05 (368.4)

N SEA OIL (Argus)
Brent 15-day Jan
\$18.325 (18.25)

Chief price changes yesterday: Page 17

DOLLAR
New York lunchtime:
DM1.58
FFr5.3915
SFr1.3935
Y128.355
London:
DM1.5765 (1.5765)
FFr5.3825 (5.3875)
SFr1.3925 (1.3945)
Y129.2 (128.65)
Tokyo close: 129.38

US lunchtime rates
Fed Funds: $4\frac{3}{8}$%
3-mo Treasury Bills: 4.254%
Long Bond: $102\frac{2}{32}$
yield: 7.796%

STOCK INDICES
FT-SE 100:
2,380.2 (−11.8)
FT-A All-Share:
1,156.61 (+0.7%)
FT-SE Eurotrack 100:
1,034.07 (−0.87)
New York lunchtime:
DJ Ind. Av.
2,858.45 (−5.37)
S&P Comp
376.69 (−1.21)
Tokyo: Nikkei
21,502.90 (−450.16)

LONDON MONEY
3-month Interbank: $10\frac{5}{8}$% ($10\frac{11}{16}$)
Liffe long gilt future: Mar $96\frac{1}{32}$ ($95\frac{5}{8}$)

MONETARY UNION

Bonn agrees to surrender the D-Mark

By David Marsh, Europe Editor

EUROPE has signed up to embark upon monetary union by the end of the century. But, in the complicated 90-page Emu treaty, there is still much fine print to be pored over and acted upon before a single currency is born.

One of the most important hurdles will be working out the exact nature of the second stage of Emu, which will start on January 1 1994. In contrast to earlier German ideas of making the second stage relatively short in advance of the irrevocable fixing of exchange rates, this "waiting room" period could be agonisingly long.

Stage two could end as early as January 1 1997 if a majority of EC countries fulfil the necessary economic convergence conditions by then. If not, the final phase of Emu will start from January 1 1999 – with a single currency following several months later.

France and Italy have registered a historic victory by winning "irreversible" German agreement for a single currency, the Ecu, which would eventually replace the D-Mark. The deal was wrapped up at a dinner in the Dutch town on Sunday night between President François Mitterrand and Mr Giulio Andreotti, the Italian prime minister. But there will still be plenty of opportunity for disagreement.

In particular, it is still not clear exactly what form will be taken by the European Monetary Institute (EMI), to be established at the beginning of 1994 as the embryonic European central bank. The EMI will take over the short-term holdings of gold and foreign exchange reserves now pooled together on a temporary basis as part of the European Monetary System (EMS).

In addition to looking after these transactions, the EMI will have the opportunity, according to the treaty, "to hold and manage foreign exchange reserves as an agent for and at the request of national central banks." In order to cement the EMI's credentials as a "central bank in waiting", the Banque de France and the Banca d'Italia can be expected to lodge a significant part of their currency reserves with the EMI.

The Bundesbank and the Nederlandsche Bank, the Dutch central bank, which are both keen to play down the EMI's institutional character, by contrast, will not take this route.

Two questions of great importance concerning the EMI's functions have been left hanging in the air – the site for the institute and the person who will be appointed (from outside the circle of active central bankers) as the organisation's permanent president.

In order to bolster the EMI's credentials as a new body with a mission of its own, it would not be surprising if France were to propose for the post a personality such as Mr Jean-Claude Trichet, head of the French Treasury.

The opening part of the Emu treaty states that the EC's single currency will be the Ecu. This will not be the existing composite "basket" of EC currencies, but will be the name of a new currency representing irrevocably fixed values of existing national currencies.

However, other parts of the treaty referring to the role of the present basket currency have been watered down compared with early French- and Italian-favoured versions. The draft text issued by the Dutch presidency at the end of October laid down, for instance, that the EMI should "oversee and promote the development of the Ecu."

At the insistence of Germany, this clause was quietly dropped in the agreed treaty. Another example of the Germans' misgivings about the Ecu is the view that the final decision on whether the single currency would be called "Ecu" had not been taken.

Diplomats say that the British prime minister was a success at what was an otherwise chaotic summit

Pugnacious Major outshines his counterparts

By David Buchan in Brussels

BY ALL accounts, the most impressive performance at the Maastricht summit was that put up by Mr John Major.

Even delegations from countries most at odds with the British prime minister at the summit ruefully admitted yesterday that Mr Major outshone all his EC counterparts in the pugnacious way in which he put his case and the tenacious manner in which he stuck to it.

"Disaster for Europe, success for Britain" was how one diplomat put it, after an often-chaotic summit which showed, he claimed, just how unsuited heads of state and government are to negotiating detailed treaty texts.

"Most of them did not know what they were doing", the diplomat said.

Mr Major was helped by his youth, relative to that of President François Mitterrand of France, who was "just plain out of it" for most of the discussion - except that on his beloved issue of a common EC defence - and of Prime Minister Giulio Andreotti of Italy who, as is his wont at EC summits, slept through a goodly part of the proceedings.

But most of all, said both British and continental diplomats yesterday, Mr Major was helped by Prime Minister Ruud Lubbers, the summit's Dutch chairman who has always sought to smooth Britain's path in EC negotiations, and by Chancellor Helmut Kohl of Germany, who took an avuncular shine to the British premier.

It rankles with many delegations, for instance, that when late on Tuesday night Mr Lubbers took a vote on whether EC research programmes should be decided by qualified majority, or unanimity, 11 leaders put up their hands for majority, and only Mr Major insisted on unanimity.

"There is no consensus; research and development stays unanimity", snapped Mr Lubbers, stopping any discussion in his desperation to bring the summit to a close.

But what startled most delegations was the way that Mr Lubbers cooked up with Mr Kohl the deal whereby Britain's EC partners decided to form their own "European Social Community" to legislate among themselves on labour market rules.

The Lubbers-Kohl deal then appeared to be sold in advance to President Mitterrand, during a Tuesday night break in the summit session. Franco-German backing for the idea effectively pre-empted other leaders who up to then had been expecting some modest opt-out for the UK alone.

"The really ridiculous thing", said another European diplomat yesterday, "is how we, the Eleven, are supposed to let the European Parliament vote on our social legislation".

In earlier summit negotiations, when Mr Lubbers was still trying to get an agreed social policy text with Britain, the 12 had voted on how social policy should be dealt with by Strasbourg MEPs.

Britain stymied an attempt by all its partners to give MEPs veto rights on social policy, and insisted that Strasbourg should only be allowed to amend in this area.

"So now we are left deciding social policy according to a procedure dictated by Britain which is not even going to take part in our arrangement", the diplomat said.

Much to smile about: Helmut Kohl, German chancellor, right, and Hans-Dietrich Genscher, foreign minister, prior to the cabinet meeting in Bonn yesterday where they discussed the results of the European Community summit in Maastricht

DEFENCE

Common policy relies on WEU

By Robert Mauthner, Diplomatic Editor

THE European Community has been given a defence role for the first time by the decisions taken at the Maastricht summit.

Though the text of the political union chapter of the new treaty makes clear that Nato's obligations concerning European defence will not be undermined, both the political and military role played by the European members in the alliance will be enhanced.

Britain's partners succeeded in inserting wording into the treaty which Mr John Major, the British prime minister, would certainly have preferred not to see there.

Thus, the EC's new common foreign and security policy "shall include all questions related to the security of the European Union, including the eventual framing of a common defence policy, which might in time lead to common defence".

The prospect, even in the longer term, that the EC might become responsible for its common defence, inevitably downgrading Nato's role, is not something that the present British government wants to contemplate.

The treaty also specifies that the nine-nation Western European Union, which has been designated by common consent the defence "bridge" between Nato and the EC, will be "an integral part of the development of the European Union". The Union will be able to "request" the WEU "to elaborate and implement decisions and actions of the Union which have defence implications."

A declaration adopted by WEU foreign ministers in the margin of the summit gives further details of how the organisation's member states, all of whom are also members of the EC, intend to give practical effect to establishing a close working relationship between the two groups.

In future, the WEU and EC Council of Ministers' secretariats will co-operate closely on defence and security matters and strenuous efforts will be made to synchronise meetings of the two organisations and to harmonise working methods.

Another important innovation is that the Commission of the European Community will be regularly informed and consulted on WEU activities.

Most member countries, with the exception of Britain, believe that progressive economic integration must be complemented by similar moves in the foreign, security and defence policy field if the European Community is to maintain its momentum.

Even if they do not say so out loud, most EC governments are convinced that the US military withdrawal from Europe will continue and that they will be obliged by practical considerations to develop their own defence policy.

EUROPEAN PARLIAMENT

Strasbourg MPs straining to flex their new muscles

By David Gardner in Brussels

THE European Parliament had a good summit. Its powers have been increased significantly, though the 518 Euro-MPs did not get all they wanted.

On Monday night, it looked as though Chancellor Helmut Kohl of Germany – the parliament's champion in the political union negotiations – had secured for Strasbourg the co-legislation rights it wanted. This would have meant extending the amendment procedures now used for single market legislation into all areas of policy decided by qualified majority vote in the Council of Ministers.

Though seven countries backed the plan, consensus eventually gelled around the Dutch presidency's earlier plans – the so-called Negative Assent Procedure, which gives MEPs a veto. This is "co-decision" or equal say with the council.

Whereas now, parliament needs the European Commission's backing to get its amendments through the council, under the treaty it will have the right to negotiate directly with the ministers the changes it wants, and reject bills that do not contain them.

This "loads the procedure in favour of the council by challenging parliament to veto," says Mr Richard Corbett, a constitutional expert for the Socialist group at Strasbourg. In practice, parliament will usually prefer a half-measure to none at all, and will not want to sully an already shaky reputation by appearing a purely negative counterweight.

Mr Jean Pierre Cot, the French leader of the 180-strong Socialist group, said when the plan was first mooted that parliament would be very reluctant to use this power. The outgoing president of the parliament, Spanish Socialist Enrique Baron, told the 12 heads of government in Maastricht that to use it would be "political suicide."

The new power is referred to throughout the treaty as "the procedure laid down in Article 189b", because the UK could not tolerate the sovereignty-leaking implications of the word "co-decision".

It covers laws on the internal market, consumer protection, the free circulation of labour, the right of individuals and companies to establish themselves in other member states, the treatment of foreigners, vocational training, public health and trans-European infrastructure.

It also covers framework programmes – but not specific laws – on the environment and research; and co-operation measures in education and culture.

But in foreign policy, Strasbourg's influence could be felt more gradually. Its main function now is to approve treaties admitting new members to the EC and association agreements between the Community and third countries. The treaty adds four new powers.

The union treaty requires parliamentary assent for:

- The objectives of the Structural Funds, the regional aid which next year looks set to double from its current five-year allocation of Ecu63bn (£45bn) for the EC's backward areas.
- The rights of European citizenship created by the treaty.
- The harmonisation of electoral systems for European elections.
- Other international agreements such as the free trade zone treaty between the 12 and the seven-nation European Free Trade Association.

Strasbourg sought the right to approve the general guidelines of the new common foreign policy, without expecting to get it. But if it uses its new powers cleverly it will get more than the right of information and to ask questions that it has been granted.

For instance, parliament has to approve agreements with budgetary implications, giving it a lever on foreign policy. It has already held up credits to Israel and blocked aid to Turkey.

Two other opportunities await an assembly straining to flex new muscles. In 1996, the union treaty will be reviewed, and if parliament is seen to have performed well it will surely get more power. But even before then, the EC will almost certainly take in new members, and Strasbourg will be able to demand a price for admitting them.

THE SOCIAL CHARTER

Astonishing compromise threatens to create a Brussels benefit for the legal fraternity

By David Gardner

THE EC Social Charter threatens to become a lawyers' charter, after the Maastricht deal letting the UK out of its main provisions. This deal forces Britain's 11 partners to pursue their social ambitions outside the treaty, through a protocol similar to the British opt-out arrangement for monetary union.

The astonishing compromise reached in the early hours of yesterday safeguards Britain from legal challenge by any of its citizens who may feel aggrieved that continental Europe is getting benefits which do not apply in the UK.

But the UK remains signed up to the Treaty of Rome's social chapter, and all existing and future legislation flowing from it.

This unreformed chapter goes into the new European Union treaty, while the UK's 11 partners have had to "opt out and up", as the Dutch prime minister, Mr Ruud Lubbers, put it, by taking the reformed social provisions into an agreement outside the treaty. "We had to make a choice and we made a choice to go forward with the 11," Mr Lubbers said, underlining that he hoped "the exemption <of the UK> will only be for a limited period."

But the 11, if they use their new mechanism from 1993, will not be making EC law, but agreements which they transcribe into national law.

Nevertheless, the deal which saved the treaty has opened a rich seam of potential legal conflict which promises to keep Britain at odds with its partners on social policy.

The way social policy will work looks roughly like this. The European Commission will still bring forward draft directives for the 12, based on the unreformed social chapter. Some of these, like the working time directive, will remain controversial.

The UK claims Brussels is abusing its power by trying to limit working hours under health and safety provisions which are approved by qualified majority vote. Britain insists the measure should be covered by the normal unanimity requirement, which allows a national veto. This sort of battle royal will remain a feature of social affairs councils.

> Britain could be challenged on the grounds it infringes competition rules on the labour front

But for measures derived from the more advanced social provisions outside the treaty, such as workers' consultation and collective bargaining at Community level, the procedure will be different. It is possible that Brussels will run proposals by the British government, and if it baulks, submit them only to the 11, but it is more likely to go straight to the 11.

They will then use the Community mechanisms to adopt them or not – with the oddity that Britain's two commissioners and 81 Euro-MPs will participate in the decision. British companies on the continent will be subject to these national laws, some of which could percolate into the UK.

An existing Commission proposal to set up works councils in larger companies operating in more than one member state, for instance, is now unlikely to go to the 12. The rules now require unanimity and the UK would almost certainly veto it.

But the 11 wanted this moved to majority voting and will probably adopt it on that basis. Some of the companies concerned could then bring their UK units into the arrangement, voluntarily or under pressure from their unions.

But where the lawyers will be busiest is where EC law-making is usually most active, in updating existing directives, part of the "acquis communautaire" of law Britain must respect. The Commission might, for instance, try to change the definitions in the collective redundancies directive, to cover smaller groups of workers. Or it may want to strengthen the bill in a way the UK might maintain conflicted with its original purpose. Either possibility is open to legal challenge. But, under the protocol, Commission officials noted yesterday the 11 also have access to the full range of EC institutions – including the European Court of Justice.

Some officials suggest challenges to Britain could me made on the grounds that it infringe single market competition rules through maintaining labour laws that give it an unfair advantage.

The broader point is that Britain may well in the future sign up to the Social Charter. There could, by then, be a build-up of social and labour legislation it has had no part in shaping.

But as one British official remarked yesterday: "That was true when we joined the Community."

BRITISH REACTION

Mixed feelings over UK opt-out clause

By David Goodhart, Labour Editor

BRITISH employers let out a collective sigh of relief yesterday as details emerged of the UK "opt-out" deal on EC social and employment legislation.

Following Mr Michael Howard, UK employment secretary, who described the deal as an "excellent outcome", the Confederation of British Industry and leading employers such as ICI said they were more than satisfied with the result.

However the opt-out may become a mixed blessing. UNICE, the European employers' body, was dismayed because it destroyed chances of softening the treaty terms for the other 11 EC economies.

Over the next few years (probably not before 1993), the 11 will face legislation, covered by qualified majority voting, in such areas as "working conditions" and "worker information and consultation" which UNICE had found most objectionable.

The sort of legislation that is likely to produce includes the introduction of works councils, in companies with more than 1,000 workers, and the laying-down of terms of employment for part-time workers broadly similar to those for full-time workers, on a pro-rata basis.

Michael Howard: excellent outcome

British employers will not escape unscathed. Those with a substantial number of continental European employees will have to introduce the tougher legislation on the continent in any case. In areas such as works councils, the UK unions may well want to join in via the "back door".

Mr Alan Wild, director of employee relations at Grand Metropolitan, which has 7,000 employees on the continent, broadly backed the UK government's stance at Maastricht, but admitted that "opting out does have some downside risk".

That risk is mainly political. British employers yesterday seemed to be assuming that the Conservative Party will rule Britain forever. The return of a Labour government, committed to "opt in" to social legislation, at any time in the next decade, would suddenly impose a tougher form of social legislation than would probably have operated if Mr Major had stayed to fight.

Mr Richard Price, deputy director of the CBI, warned last night against establishing an "if only" myth from the Maastricht summit, and said it was not clear there was on offer a "softer" version of what was agreed by the 11.

He also said that, with the sort of economic pressures on the EC over the next few years, it is unlikely that the 11 will use their new-found freedom from the UK veto to introduce any radical legislation.

But, if they do, the UK government will not have been able to have any restraining influence at all. UNICE certainly fears that without the UK government an important brake on the social Europe enthusiasts has been removed.

In fact, it seems likely that most social legislation, except for that which is already covered by qualified majority such as that on health and safety, will continue to be introduced under unanimity and only if the UK uses its veto will the 11 go their separate way.

The UK will continue to take part quite normally in debate of those matters that remain covered by unanimity – social security, individual dismissals, collective redundancies, and trade union rights among others.

The main worry for British employers is a longer-term one. But there is also a short-term one. The infamous working time directive which had made considerable progress before the Maastricht summit is unlikely to be abandoned and will continue to affect the UK. Portugal is likely to introduce it again in April and as it is covered by qualified majority the British will not be able to opt out.

While Mr Howard was yesterday pointing to the freedom that British employers, and inward investors in Britain, will continue to enjoy, others were mourning the UK's exclusion from a key aspect of EC policy.

The TUC said that "workers in this country will be denied rights guaranteed to their colleagues in the rest of the Community".

Mr Tony Blair, the Labour Party's employment spokesman, described the Maastricht deal as "highly damaging" but believes that Britain's isolation on social issues will be to his political advantage in the coming election campaign.

International union bodies, particularly the European TUC, welcomed the deal on the grounds that it was better than they expected for the 11 and that the 12th will be dragged in at some point in the future.

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THE MAASTRICHT TREATY

Ian Davidson gives a personal view of the Maastricht outcome

Hollow victory for Britain as it launches two-tier Europe

IN THE early hours of yesterday morning, Mr John Major, the British prime minister, gave the world his considered judgment on the results of the two-day European summit which had just ended at Maastricht: "Game, set and match for Britain".

Such a sporting verdict obviously has political virtues. It sounds jolly, victorious and patriotic all at once, and no doubt is being much quoted inside the Conservative party.

Unfortunately this particular sound-bite, for all its innocent vulgarity, was ill-chosen on two grounds. In the first place, to reduce the Maastricht agreement to the triviality of a sporting joust suggests a disturbingly philistine incomprehension of the event. Second, if Mr Major really thought he was engaged in a tennis contest – a game in which the British have not excelled for several decades – he does not seem to understand the difference between winning and losing.

Some of the other European heads of government have drawn attention to the rather obvious fact that the Maastricht agreement must be considered, by any rational measure, one of the most important events in post-war European history. After all, this is a treaty which will lead to a single currency in Europe in just over seven years, as well as to the gradual development of a common foreign and defence policy. If this programme is adhered to, the European Community will be well on the way to becoming a sort of federation.

Of course, we know Mr Major does not like this treaty and all it stands for; he so dislikes the sound of the word "federal" that he had it removed from the treaty text. But to attempt to demean the Maastricht agreement by comparing it to a tennis contest, must surely be an error both of judgment and of political leadership.

Mr Major has compounded his error by misreporting the score. It is true that he secured a British opt-out from the single currency in phase three of economic and monetary union. It is also true that he secured a British exemption from the extension of Community power into new areas of social and employment law. But to pretend that these two achievements constitute a significant British victory is the most grotesque misrepresentation.

Take the British right to opt out from the single currency. In negotiating terms, this can only be described as a total disaster, measured purely in terms of the declared strategic objectives of the British government. Those objectives were to delay and if possible prevent any Community commitment to a single currency.

These strategic objectives have not been met. In the first place, Britain has signed up for a treaty which explicitly sets the objective of a single currency. In the second place, the other 11 have set a fixed and very early date as the deadline for that currency. And in the third place, the British government makes no attempt to conceal its determination not to be left out of a single currency when it happens.

> Britain's colossal blunders at the summit were based on a profound failure to devise a European strategy which can mesh plausibly with the other forces in place

These perverse results have come about because Britain insisted on its right to opt out. The immediate effect was that Britain lost all bargaining leverage over the timetable for monetary union among the other 11. So when, on Monday, the French proposed setting a fixed deadline, the British had nothing to say. So much for triumph number one.

Or take the British government's hostility to the intrusion of new social and employment legislation. Its declared objective was to block any extension of this kind of social policy in the Community. In superficial terms it won a clear victory because it blocked any change in the Rome Treaty. But, in strategic terms, the result was a colossal political defeat, because it goaded the other 11, well after bed-time on Tuesday night, into creating a social sub-Community of their own.

Some people think that the social sub-Community will prove a rickety structure, with dubious juridical foundations, which may be overthrown in the Court of Justice. That is possible. But the more important point is the political implication of the event: if the 11 were ready, able and willing to improvise a sub-Community in a midnight crisis, they will certainly not be deterred from making a second, more reliable attempt if need be.

In short, the British government gravely over-played its hand. Perhaps this was because of a traditional Treasury assumption that foreigners do not understand economics, despite appearances to the contrary; or because Mr Major had not sufficiently studied the value systems subscribed to by his continental counterparts.

But, either way, the result is the same: Britain has, single-handedly, created the beginning of a two-tier Europe in which it is in a minority of one. Moreover, the gap between the two tiers can only get wider, and it cannot ever be closed by a Conservative government. So much for triumph number two.

These are not minor errors of a self-contained kind. They are colossal blunders, based on a profound failure to devise a European strategy which can mesh plausibly with the other forces in place. And that failure in turn is the direct consequence of the defensive and adversarial vocabulary adopted consistently for the past 40 years by almost the entire political class in Britain towards the European Community.

The main result of the Emu error is not just that monetary union in a narrow sense will come much faster than anyone previously expected. The more important consequence is that it will also have a turbo effect on all the other parts of the Community structure, from the powers of the parliament and immigration to foreign policy. If the British do not like these implications, they should try to do something about them; but the sad fact is that they have no strategy, apart from a narrowly negative rear-guard action. Their only response to failure and strategic error, is to dress them up as triumphant successes.

Prime Minister John Major feels the strain of the marathon bargaining session

German nerves at loss of D-Mark

By Quentin Peel in Bonn

"THE End of the D-Mark," the banner headline in Germany's mass-circulation Bild Zeitung screamed yesterday.

Beside it, surrounded by a mock photograph frame, was a picture of Chancellor Helmut Kohl holding up a gigantic D-Mark coin, with the slogan: "Helmut, you made such a handsome couple." And underneath, the cryptic caption: "For your photograph album, in memory of Kohl and the strong D-Mark."

Like all great popular papers, when Bild decides on a campaign, it does not pull any punches. Given the almost total lack of any serious public debate in Germany about the EC treaties on political and economic union before Maastricht, its cheerful hysteria comes almost as a relief.

"In the Dutch town of Maastricht yesterday could be heard the sound, quite softly, of a funeral bell," the front page lead began. "It tolled for the symbol of German prosperity, of the German economic miracle. In 1997, or at the latest in 1999, the Deutsche Mark will be abolished.... What would the great Ludwig Erhard [regarded as the father of post-war Germany's economic miracle] have had to say about that?"

The newspaper is also convinced it is reflecting the overwhelming popular feeling of its 4.8m readers. It cites an opinion poll by the Wickert Institute, saying that 79 per cent would favour a referendum before the D-Mark is abolished. Only 17 per cent would back the politicians – government and opposition alike – in supporting the move to European economic and monetary union.

"But the Germans were not asked. The politicians decided. The Ecu is coming," Bild wails.

And on Page Two, no pin-up girl, but another brutal assault on the European currency. "Ecu," the headline shouts, "how on earth do you pronounce the thing?" "Why can't we call it the Euro-Mark?" the newspaper wants to know.

Ironically, the scepticism expressed by the country's most popular newspaper reflected most closely the caution of its business establishment, rather than the general disappointment of the political leadership at the modest results.

> "Ecu? How on earth do you pronounce the thing? Why can't we call it the Euro-Mark?"

The politicians were virtually unanimous that if Maastricht was a disappointment, it was because it did not go far enough. That was the immediate reaction of Mr Hans-Dietrich Genscher, foreign minister, just as it was of Mr Björn Engholm, leader of the opposition Social Democrats.

"On the central question of democracy in the Community, the Chancellor simply buckled at the knees," Mr Engholm declared. "The extra powers agreed for the European parliament are inadequate. Contrary to what he promised in advance, he voted for the European currency, without ensuring that the future European union will be democratic enough."

As for the postponement of any decision on giving Germany another 18 members of the European Parliament, to represent the new states of east Germany, he expressed his "grave disappointment".

Mr Kohl's own party supporters were loyally more enthusiastic about the deal he finally brokered. "The results of Maastricht are a victory for Europe and for Chancellor Helmut Kohl," said Mr Volker Rühe, secretary general of Mr Kohl's Christian Democratic Union. "Thanks to his unwavering efforts, yesterday's decisions mean that the process of political union has been set on an irreversible course."

As for the federal states, first reactions suggest that they will buy the deal – thanks to a paragraph defining their own beloved concept of "subsidiarity", or building the EC from the bottom up.

"It is a half-victory for the states," said Mr Florian Gerster, European affairs minister for the Rhineland Palatinate. "For the first time in Maastricht the principle of subsidiarity from below has been written down in the text. Regional government will have priority in the solution of problems before they are passed on to national or supra-national level."

It certainly looks as if Mr Kohl may have done enough to win ratification from the Bundestag and the Bundesrat. Unless, that is, Bild Zeitung can swing the whole debate the other way in the coming months.

Major applies a balm to Conservative party wounds

By Philip Stephens, Political Editor

MR JOHN MAJOR went to Maastricht to get a deal which might bind, if not heal, the wounds that Europe has inflicted on the Conservative Party. He got one.

Mrs Margaret Thatcher, his predecessor as UK prime minister, for whom any deal on a single currency represents the conveyor belt to federalism, cannot accept it unless she is ready to abandon the principles she staked out last month.

Nor can perhaps another dozen anti-federalist diehards for whom only a veto at the summit would have represented success. Mr Norman Tebbit, the former party chairman, signalled immediately that he would vote against the accord. So there may be bad headlines yet to come.

But, as government and party machines moved into carefully-prearranged overdrive to sell the accord to Tory doubters, and to the voters, it was evident that the irreconcilables will represent a splinter rather than a split. The warning to Mrs Thatcher was that her reputation would be shredded if she stood against her successor.

The confident judgment of cabinet colleagues was that waverers among the Conservative Euro-sceptics would fall in behind Mr Major after his "victory" in excluding Britain from European-wide legislation on employment conditions.

He is now annointed as the prime minister who can be as tough as Mrs Thatcher in defending Britain's vital interests while leaving the negotiating table with its influence and friendships intact.

Yet for all but those closely acquainted with the rifts in Mr Major's party, the Maastricht accord was an odd concoction.

As the price of delaying a decision on British participation Mr Major accepted a firm timetable for a single European currency.

His protestations that the strict economic convergence criteria for stage three of economic and monetary union in the event will push it into the distant future were gently brushed aside by his summit colleagues.

It was clear that politics as much as economics will be the decisive factor in whether the new European Union moves to a single currency in 1997 or 1999. Other leaders were equally insistent that when the time comes Britain will have no choice but to join the enterprise.

The compromise, if that is the right word, on the social dimension was hammered out in an undignified bout of haggling in the closing hours of the summit. Chancellor Helmut Kohl repaid Mr Major's assiduous attention to Bonn over the past year with the let-out clause on social policy that the prime minister needed to offset his signature on Emu.

President François Mitterrand was characteristically imperious about the "English problem". But the contacts that the prime minister has cultivated with others – among them Mr Rudd Lubbers, the Dutch summit chairman – paid dividends.

No-one is quite sure how the new arrangements for a social policy of the 11 will work in practice. Will the British representative be debarred when the others agree new rules for part-time work or worker consultation? What will happen to the level playing field pre-supposed by the single market?

But such ambiguities did not affect the crude political judgment of Mr Major's colleagues at Westminster yesterday. Their horizon stretches at most over the seven months in which they must face the electorate; and, in the shorthand favoured by Britain's tabloid press, he had fought his corner and seen off the foreigners.

In coming weeks and months much will be made of Mr Major's performance in Maastricht as the Conservatives seek to widen further the gap between confidence in his leadership and that of Mr Neil Kinnock. Could the Labour party leader have pulled off such a deal, cabinet ministers will ask with feigned incredulity?

For Conservative MPs Britain had secured the best of both worlds. Their image was of a prime minister whose tough negotiating skills would now be able to pick and choose which elements of European social legislation to enact, while Japanese investors continued to put their money here rather than elsewhere. It was the 11 who were isolated.

It was an audience that Mr Major played to in his statement to the House of Commons yesterday. There is much in the fundamental structure of the treaty on political union that Britain can claim credit for.

Mr Douglas Hurd, the foreign secretary, was one of the most skilled and painstaking architects of the "pillars" of intergovernmental co-operation on foreign, defence and interior policies which have been erected alongside Community institutions.

The gains were outlined in Mr Major's statement. Mr Hurd will develop the theme in next week's debate. But, yesterday, their significance was lost in the "game, set and match for Britain" rhetoric which suffused the prime minister's presentation. "I was not prepared to put British jobs on the line" was the phrase which gave the flavour of his presentation.

The contrast with the comments of other European leaders could not have been sharper. They appreciated Mr Major's courteous and straightforward style but judged that he was still rooted in his party's past.

Mr Lubbers alluded to a two-speed Europe, voicing sorrow that Britain seemed unwilling to maintain the pace of advance of its partners. Mr Kohl was said by aides to have seen himself in the role of a tolerant father bringing along a wayward son. Neither had any doubt that the union created at Maastricht presaged the drive to an integrated Europe that Mr Major could not accept.

Mr Kinnock saw the advantage for Labour in such judgments. The thrust of his attack in the approach to the election will be that Britain has been left in Europe's second division. Voters will be denied the protections and standards applied in the rest of Europe. It is a message that has some resonance.

Yet Mr Major could not be denied his satisfaction. The three most important tasks on his agenda when he took office a year ago were to scrap the poll tax, re-unite his party over Europe and deliver an economic recovery. It is upon the third that the outcome of the election now hinges.

Thatcher decides to keep her powder dry

By Ivor Owen, Parliamentary Correspondent

MR JOHN MAJOR won an enthusiastic response from most Conservative MPs when he reported to the Commons yesterday.

Any anxieties on the government front bench about the attitude of Mrs Margaret Thatcher were allayed, at least for the time being, as it quickly became clear that she had decided against any immediate comment. According to her aides she intends to make a detailed study of the agreements before making any public pronouncement.

The anti-federalist Bruges Group, of which she is honorary president, warned in a statement that Britain was still on "a conveyor belt to centralism" and that much of what had been agreed at Maastricht required clarification.

Mr Major repeatedly underlined the importance of economic convergence before the EC adopted a single currency, and strongly defended his insistence that Britain should have the right to opt in when parliament decided.

He was questioned by Mr John Biffen (a former cabinet minister and one of the small group of Conservative backbenchers who abstained when the government sought approval for its approach to Maastricht) about the consideration given at the summit to the likely effect of a single currency on admitting new entrants to the Community.

The prime minister emphasised that if a small number of member states were to decide to enter into a single currency arrangement on their own it would be "increasingly difficult" for others to join them at a later stage. For that reason, if and when a decision was made to adopt a single currency, it would be desirable for as many members as possible of the EC to "move forward collectively".

Replying to Mr Anthony Nelson (C Chichester), Mr Major said if the House were to decide at a later date to enter into a single currency it would have to be satisfied that the economic convergence conditions in Europe were right.

One of the principle benefits would be low inflation across the whole of Europe but whether this was achievable was "dependent crucially" on the economic conditions applying in Europe.

To government cheers the prime minister stressed: "It is because no one can know what those conditions might be that it would be unwise for anyone to decide irrevocably at this stage to take that decision at a future date."

Mr Major was strongly supported from government benches when he maintained that the social chapter which Britain refused to accept required imposition of labour laws which would damage industry's competitiveness.

Ashdown says UK is condemned to 'semi-detached' status

By Ralph Atkins

DAMAGING economic costs of Britain's caution over European economic and monetary union were the focus of the Liberal Democrats attack on Mr John Major as its MPs derided his claim to be at the heart of Europe.

The prime minister has "condemned this country to be semi-detached", Mr Paddy Ashdown, the party's leader said.

"Uncertainty about Britain's future in Europe will mean higher interest rates when the pound comes under pressure; it will mean lower inward investment; and it will mean that we cannot shape the institutions that we will eventually have to submit to," he said.

The City of London could not expect to become the location for the European central bank and would lose prestige to other European financial centres, he added.

Liberal Democrats were less critical than Labour of the prime minister's rejection of the treaty's social chapter: Mr Ashdown would have objected to the clauses on Europe-wide collective bargaining which clash with Liberal Democrat preference for decentralising wage bargaining.

They also oppose parts of the social charter – on a minimum wage and on hours of work.

However, Mr Ashdown attacked the government for not using Britain's negotiating muscle to amend the social chapter – rather than concentrating on removing references to "federal" or on opt-out clauses for a single currency.

Underlining his party's determination to be the most pro-European in Westminster, Mr Ashdown said the prime minister was leaving Britain on the sidelines.

For 40 years, Britain had been dogged by questions over its role in Europe. "He had the opportunity to answer that question once and for all – and he ducked it," he said.

Among other parties, the Scottish Nationalists and Northern Ireland's Unionists diverged sharply. Mr Jim Sillars, the SNP member for Govan, said Mr Major's claim to have reined in the ambitions of other EC leaders was "a vain boast".

The SNP backs a single currency and believes many aspects of the proposals on social issues are in line with its own policies.

"What you achieved, or failed to achieve, might please the little Englanders behind you, but will be a tragedy for the people of the UK," Mr Sillars told the prime minister.

Mr Ian Paisley, leader of the Democratic Unionist Party and a long-time opponent of the European Community, signalled that he would vote against legislation to enact the treaty. He congratulated Mr Major on, "escaping unbruised from the street fighting at Maastricht where you met the heavies of Germany and France".

Labour jubilant about early Christmas gift

By Ivo Dawnay, Political Correspondent

THE GRIM warnings of catastrophe and disaster could not disguise heady jubilation within the Labour leadership yesterday.

The opposition believes that the summit outcome is about as generous an electoral Christmas gift as it could have hoped for, short of a UK government-provoked breakdown of the talks.

When Mr Neil Kinnock and Mr Gerald Kaufman addressed the parliamentary party's end-of-year meeting in the Commons yesterday morning the elation was as heartfelt as the ovation was sincere.

As Mr Giles Radice, Durham North MP, put it even before the meeting: "The fact is it [the Maastricht outcome] opens up an electoral flank for Labour. They have given us the social charter card."

"It is a typical chief whip's ruse.... it will get them through until Christmas. But far from 'Game, Set and Match,' Britain is not even in the game."

A similar message was delivered by the party leader from the despatch box. Far from being "at the heart of Europe", the government's double opt-out had left it playing Gen de Gaulle's "empty chair" strategy, leaving Little England shadowing its more imaginative EC partners, with no powers to influence their course, but ultimately doomed to accept their decisions.

"That, Mr Speaker, is abdication not negotiation," he said to backbench cheers.

On the social chapter, Labour also believes it has electoral trumps to play. "How can the prime minister claim to be seeking the best deal for Britain when he is getting the worst deal for British workers?" Mr Kinnock asked.

To these points, Labour officials were busy yesterday adding cheerfully gloomy scenarios of British politicians being ousted from council of ministers' meetings on social issues. The UK, it was pointed out, was being not merely "opted out" but, in reality, locked out of discussions on who would become the president and board members of the European central bank.

Yet, once the euphoria dies down, what is the real fruit of the Maastricht agreement for Labour? Cooler heads believe that perhaps the best consequence is that Labour has acquired definition from the Tories in its policy differences on the EC.

Questioned in an election, shadow ministers can promise to reverse Britain's "isolation" on social issues as soon as they take office, returning the country to the "First Division".

Furthermore, the party's poll analysts believe that real value is to be gained by raising voters' disquiet of Britain being in the slow lane – a more potent fear, they say, than any Tory-inspired anxiety about lost sovereignty.

After weeks in the doldrums, sidelined by Mr Major's jet-setting diplomacy, all this ammunition is welcome. But for many Labour tacticians the real bonus from the end of the Maastricht episode is that the Euro-controversy is now almost over.

Once next week's two-day debate is concluded, the party will use the Christmas recess to re-focus the public's attention on domestic issues ranging from the health of the economy to the National Health Service.

The view from Labour's back benches is that Europe should now go away. And while the Maastricht outcome may help contribute to the endless task of undermining the government's reputation for competence, it is time to return to Labour's core issues of unemployment and public services.

The tacticians believe, however, that having weathered weeks of government dominance of the media and still come out a few percentage points ahead in the polls, this lead should now grow again – just as it did after the Gulf war and the Soviet crisis slipped from the public's consciousness.

As the shadow cabinet were meeting to peer into the post-Maastricht future, their conclusion was that Labour's new-found faith in the UK's European partners has delivered the goods. It should be a Happy New Year.

European business endorses move on monetary union

EUROPEAN business overwhelmingly endorsed the outcome of the Maastricht summit for the commitment it gave to the creation of a single currency by the end of the decade, write Our Foreign and Industrial Staff.

The business response was summed up by the Netherlands' Christian Employers' Association (NCW), a leading Dutch business group, which welcomed the decision to proceed to the third stage of monetary union by way of qualified majority voting, rather than by unanimity.

The NCW said: "This means the decision to proceed cannot be blocked by any countries lagging behind who do not meet the required criteria. In the NCW's view, this creates the certainty which European business needs."

Among a range of doubts, three issues stood out: the prospects for the macro-economic convergence needed to make Emu possible; the implications for the rest of Europe if British industry has a cost advantage through its opting out of the social chapter; and the costs of the "cohesion" measures designed to foster regional industrial development.

In the UK, Sir Denys Henderson, chairman of ICI, the chemicals combine, said: "This is probably as good an outcome as we could have hoped for".

He praised Mr John Major, the British prime minister, for keeping the UK at the heart of EC developments while allowing British business the flexibility to choose which parts of the social programme it should implement.

Mr John Banham, director general of the Confederation of British Industry, said: "The prime minister and his colleagues have achieved exactly what business needs – agreement on economic and monetary union which has left the way open for UK participation in a single European currency, steps to secure more even enforcement of Community legislation, and no extension of Community powers that could threaten international competitiveness."

Mr Robert Horton, chairman and chief executive of BP, the oil company, said the approach to Emu was sensible: "We have long said that similar rates of inflation and fiscal performance are vital for this to take place."

Mr François Périgot, president of the Patronat, which represents the heads of France's largest companies, was highly critical of the British opt out on social policy.

"A social policy for Europe backed by only 11 countries does not make sense," he said.

However, Mr Périgot welcomed the news of progress towards monetary union and also of the principle of the central European bank being independent of the existing European central banks. He described the agreement on monetary union as representing "a great consensus among the Europeans over economic policy".

> "The decision to proceed cannot be blocked by countries lagging behind who do not meet the required criteria"

The French concerns over social policy were echoed elsewhere. The Dutch NCW said the British opt out would create confusion and could give British business a competitive advantage.

However it was also pleased the risk of centralisation in the social area from Brussels appears to have decreased.

Mr Martin Kohlhaussen, chief executive of Commerzbank, struck a note of caution. The Maastricht deal did not ensure the Ecu would become the single EC currency, certainly not in the envisaged five or seven years.

"The future Ecu will then only be another name for the D-Mark," he said.

Germany's banking association cast doubt on the planned transition to Emu. "The banks doubt whether the probationary period, in which the criteria for convergence must be fulfilled, is adequate. This makes it even more necessary that the convergence criteria are strictly adhered to and not weakened by political compromise."

The association of German chambers of commerce (DIHT) said the inclusion of industrial policy in the treaty was a mistake. It warned that this should not create a bottomless subsidy barrel.

The Confederation of German Industry (BDI) expressed its doubts that the necessary parallel development of economic and monetary union alongside political union had been achieved. "While a firm timetable has been laid down for economic and monetary union, only the first beginnings of political union have been achieved."

It said the very fact that the 12 member states had seen so much conflict over these modest efforts to deepen the Community suggested "the right preconditions for the success of monetary union" had still not been reached.

Spain's business leaders welcomed its government's defence of the "cohesion" issue at the EC summit; something which has raised anxiety among other states.

The creation of a new fund to help poorer southern European countries meet the EC's environmental standards and the protocol to the Maastricht treaty committing the Twelve to introducing budget reforms tailored to help the less-developed partners were widely viewed as personal triumphs for Mr Felipe González, the prime minister.

Mr Fernando Soto, deputy general manager of the profitable Banco Popular group, stressed that "whatever narrows the gap" between Spain and the richer partners was good. "Maastricht has been a clear success for the government. We've moved further along the road to European unity and that has always been Spain's long-term bet," he added.

Irish business and political leaders have cautiously welcomed the treaty.

The Confederation of Irish Employers called yesterday for "an urgent meeting" with the prime minister, Mr Charles Haughey, to discuss the implications of Britain's opt out on Ireland's competitiveness.

The commitment to an increase in structural funds for the poorer peripheral countries of the EC, which include Ireland, has been welcomed, according to Mr Liam Connellan, director-general of the Confederation of Irish Industry (CII).

Mr Maurice Doyle, governor of the Central Bank of Ireland, said yesterday that the sovereignty implications of a move to a single currency was not of great concern to Ireland "since the possibilities of exercising our monetary sovereignty have been greatly circumscribed by our membership of the ERM. Any further loss of freedom in that regard is balanced by our acquiring an equal voice in the formulation of European monetary policy".

He pointed out, however, that the lack of an exchange rate adjustment mechanism "is undoubtedly a potential problem for a small peripheral country not so closely integrated with the other major community countries and, indeed, with quite a different economic structure and level of development".

Efta sees improved economic links

By **Frances Williams** in Geneva and **Robert Taylor** in Stockholm

THE Maastricht accords have been warmly welcomed by ministers from the seven member nations of the European Free Trade Association (Efta), who met in Geneva yesterday. The deal would foster closer European co-operation and strengthen economic ties between the two trading blocks, they said in a communiqué.

Negotiations for the entry of Sweden, Austria and probably Finland into the European Community could begin sooner than expected, in the second half of 1992 during Britain's EC presidency.

Mr Carl Bildt, Sweden's prime minister, said the "green light" had been given to his country's membership application.

There was nothing agreed on at the summit with which his government did not agree.

But there is unlikely to be any co-ordinated Nordic approach to EC membership; the cool reaction in Oslo yesterday reflected the continuing deep split in public opinion over whether or not their country should seek EC membership.

Norway's minority Labour government made it clear yesterday it will not speed its decision on whether to apply to join the EC but will wait – as planned – until next November and its party conference before taking a decision.

Sweden and Austria, the two Efta nations which have already applied to join the Community, are especially pleased that the Maastricht summit has opened the way for membership negotiations to begin next year. Brussels had previously insisted that negotiations could not start until after completion of the single market on January 1 1993.

Mr Pertti Salolainen, Finnish trade minister, said that if Finland decided next spring to apply for EC membership it would want to be "in the train" with the other two. Mr Esko Aho, the country's prime minister, said Maastricht had "clarified" Finland's position and the government would make its decision in February.

A firm decision by Finland to apply to the EC could change attitudes in Norway.

The Community's intention to begin enlargement talks next year puts Switzerland, which favours "eventual" EC membership, under pressure to submit a formal application swiftly if it is to catch "the first train" after Maastricht.

However, Mr Jean-Pascal Delamuraz, the Swiss economy minister, said yesterday this was only one of a number of factors the government would take into account in deciding the timing of a Swiss application.

Few believe it will come before a referendum next December, when the Swiss will vote on whether to accept the European Economic Area (EEA), the 19-nation free-trade zone agreed between the EC and Efta in October.

Iceland and Liechtenstein, Efta's remaining members, have no plans to join the EC.

Mr Jón Baldvin Hannibalsson, Iceland's foreign minister, said membership was incompatible with the Community's common fisheries policy. EEA negotiations had resolved the most difficult economic problems with the EC, so that pressure for Iceland to join the Community had diminished. However, Iceland would be working for a free-trade agreement with the US and Canada, he added.

Liechtenstein, which has a customs union with Switzerland, has yet to consider the issue.

Euro-MPs give agreement a mixed reception

By **Andrew Hill** in Strasbourg

THE democratic legitimacy of the proposed European Union is sure to be questioned in the European Parliament today, but MEPs will not vote at this stage on whether to accept or reject the Maastricht treaty.

The parliament has no power to throw out the treaty, but the national parliaments of Italy and Belgium – which have to ratify the agreement – have said they will reject it if Strasbourg does.

There was consensus on the parts of the treaty dealing with economic and monetary union, which were praised by most MEPs consulted yesterday. Mr John Stevens, the British conservative and former head of foreign exchange dealing at Morgan Grenfell in London, said: "I think the monetary union deal is fantastic: the best we could have hoped for."

On political union, however, the parliament seems to be split.

Many MEPs welcomed the new rights of the parliament for consultation on appointment of the Commission and the synchronisation of Commission and parliamentary terms. But others felt the new decision-making powers did not go far enough.

Mr Jean-Pierre Cot, French leader of the Socialist MEPs – the largest group in the parliament – said: "Our first reactions are mixed, but I want to reserve judgment."

He said, however, that democratic control over the new areas of Community competence, opened up by the treaty, had been reduced to the "bare minimum and this has to change".

The president – Spanish Socialist Mr Enrique Baron Crespo – said MEPs should not reject the treaty. "It recognises that the democratic deficit [jargon for the parliament's relatively weak powers] is a central problem for the first time." But Ms Adelaide Aglietta, Italian co-president of the green group, called it "a disaster".

Mr Egon Klepsch, the German Christian Democrat expected to take over as president of the parliament in January, welcomed the Maastricht deal, but added: "We would have wanted more. Parliament must continue to fight for the extension of its rights."

The draft resolution to be debated in Strasbourg later today is deliberately vague, reflecting the parliament's desire to examine the text still further before reaching a conclusion. The resolution welcomes the progress made at Maastricht but regrets various insufficiencies in the amended treaty.

In particular, socialist MEPs yesterday condemned the UK's exemption from the new clauses on social policy.

"We're creating a two-speed [social] Europe," said Mr Glyn Ford, the Labour MEP: "Eleven of the member states are speeding ahead and the UK is dead in the water, alone and adrift from the rest of Europe."

SIR Leon Brittan, the UK's senior EC commissioner, described the Maastricht treaty as "an historic leap forward for Europe and a personal triumph for John Major", writes Andrew Hill.

"He [Mr Major] has got everything he said he would negotiate. He can feel well-pleased because it was a difficult act to perform and he has done it with consummate skill."

Sir Leon, who was speaking before yesterday's meeting of the European Commission, added that the EC executive "had nothing to be discontented about" in the outcome of the summit.

He was not worried about the protocols exempting Britain from the social policy chapter and allowing London an opt-out clause in the move towards full monetary union.

An animated Gianni de Michelis, Italian foreign minister, delivers his judgment of the European summit in Maastricht yesterday

Italy wakes up to uncomfortable realities

By **Robert Graham** in Rome

LIKE a hang-over the morning after, Italy is confronted with an uncomfortable reality in the wake of the EC summit. To act the good federal European it aspires to be, comparatively limited time is available to carry out the difficult and necessary structural reforms for economic convergence which Prime Minister Giulio Andreotti actively promoted at Maastricht.

As Mr Gianni de Michelis, Italian foreign minister, said in an interview before the summit, Italy has always been the most pro-European of EC members because the country has gained most from membership. Yet, paradoxically, Italy is the country which has least observed EC rules, failing to implement some 149 EC directives – more than double that of any other member.

But now Italy must get its own economic house in order – bringing inflation, labour costs and the public sector deficit into line – if it is to meet the criteria for inclusion in full economic and monetary union.

Arguably, Maastricht marks a watershed forcing Italy to recognise that membership of the EC demands obligations and not solely privileges. Federalism holds no fears for Italy but exclusion from the European top division does.

Thus a sense of awe prevailed yesterday over any elation at the prospect of a more united Europe by the year 2000.

L'Indipendente, the new daily newspaper, caught the mood by reminding its readers that Italy had "only two years to enter" the new Europe. Such a short timetable was based on the calculation that economic performance for convergence to be considered by the EC Commission in 1996 would be based on the two previous years – 1994-5. On this basis, Italy had to set its house in order between now and 1994, a stiff task.

This year has been squandered by a weak coalition government ever-more preoccupied by elections.

The 1992 budget, which merely aims to hold down the public deficit to 10.5 per cent of GDP, has yet to be approved. The political parties could well fail to reach agreement on its provisions by the end of the year cut-off date, thus moving funding on to a temporary basis until after elections scheduled for spring.

Alternatively, President Francesco Cossiga is capable of refusing to sign the budget on the grounds that it is inadequately funded. In either case Italy has entered a confused pre-electoral phase and tough economic decisions are unlikely to be taken before mid-1992, if not 1993.

The postponement of all important decisions until after elections was emphasised yesterday by the postponement, for six months, of inconclusive discussions on labour costs between the government, unions and industrialists.

Eastern Europe keeps half an eye on the EC

By **Anthony Robinson,** East Europe Editor

CONCENTRATING on events at Maastricht has not been easy for central and eastern Europeans who have been far more preoccupied with events in the Soviet Union and the associated risks for the region's economic and political stability.

The ink was hardly dry on the "Minsk agreement" to set up a new post-Soviet "commonwealth", based on the three Slav states, before Poland, Hungary and Czechoslovakia announced their intentions to send envoys to the three republics to discuss setting up diplomatic ties and to seek assurances in areas such as border controls, arms control, trade and human rights.

But the EC disputes over federalism and social programmes – and, above all, the moves towards monetary union – have been followed closely in countries still revelling in their recently-acquired freedom to travel and trade with western Europe and the wider world.

The EC represents the economic and political system which all former European members of the defunct Comecon trade group aspire to join as full members, as Poland, Hungary and Czechoslovakia made clear at the start this year of their lengthy negotiations for association status.

The central European trio is due to sign formally its agreements on Monday, but hopes that this will lead to full membership before the end of the decade. The less developed "southern tier" countries – such as Albania, Bulgaria and Romania – as well as the newly independent Baltic states, hope that exploratory talks for extending associate status to them will also begin soon.

The former communist countries hope that, after Maastricht, the EC and other western institutions will pay closer attention to the other half of Europe and devote more human and other resources to the problems of the disintegrating Soviet Union. The argument in favour of deepening the community only makes sense in this part of the world as a prelude to its widening so as to embrace them.

The EC already partially finances the export of central Europe's food surpluses to the Soviet republics. But this device to assist both central Europe and the Soviet republics at the same time could be extended. One way now being investigated is to make central Europe's recent experience in privatisation available to Russia and other republics as they embark on their own delayed privatisation programmes.

A preliminary move in this direction was taken this week when the UK government's know-how fund agreed to finance the Moncrieff Consortium – four UK accountancy and consultancy firms specialising in privatisation and industrial restructuring.

The consortium – Moncrieff Young, Robson Rhodes, Reynolds and Johnson, and Levy Gee – has been appointed adviser on privatisation to the Russian government. It will not only take British advisers to Moscow and St Petersburg, but also take Russian privatisation officials to Warsaw to look at the experience of the Polish privatisation ministry.

The European Bank for Reconstruction and Development, meanwhile, plans to send a mission to the Ukraine next week for talks on co-operation.

Spain welcomes cohesion

THE Maastricht accords were generally welcomed in Spain after its demand for "cohesion" – in which funds are channeled to poorer members to help them modernise their economies – was accepted, Reuter reports from Madrid.

Spain had threatened to veto agreements on economic and monetary union if cohesion was not incorporated.

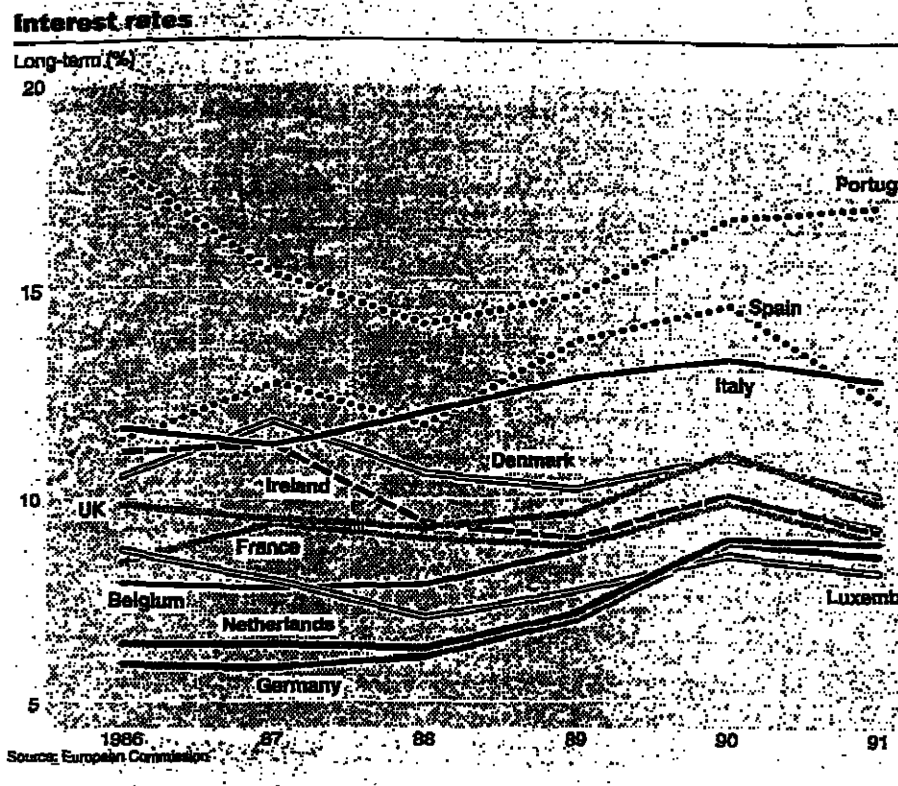
Prime Minister Felipe Gonzalez commented: "I think we have come reasonably well from this, but I would not like to exaggerate. Spain will have to make a big effort to achieve economic convergence."

He said Spain's problems will not be solved by cohesion but added "it would be almost inconceivable that by 1996 Spain were not in the group of countries that begins the process towards a sole currency".

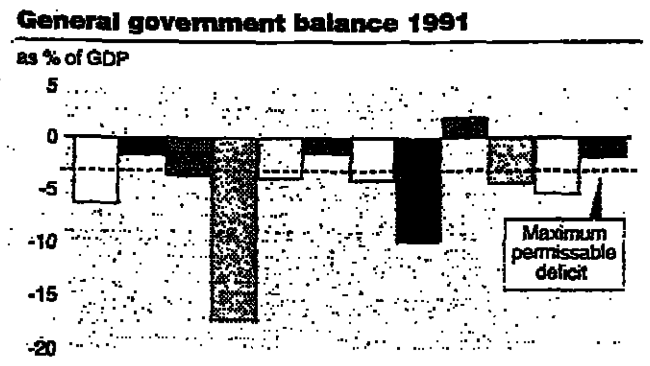
Efta sees improved economic links

By Frances Williams in Geneva and Robert Taylor in Stockholm

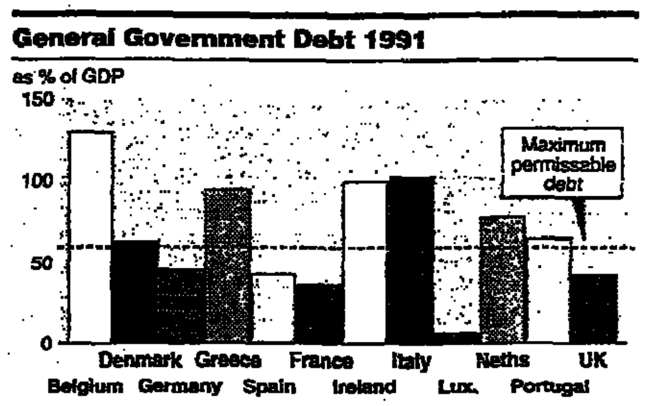
Interest rates



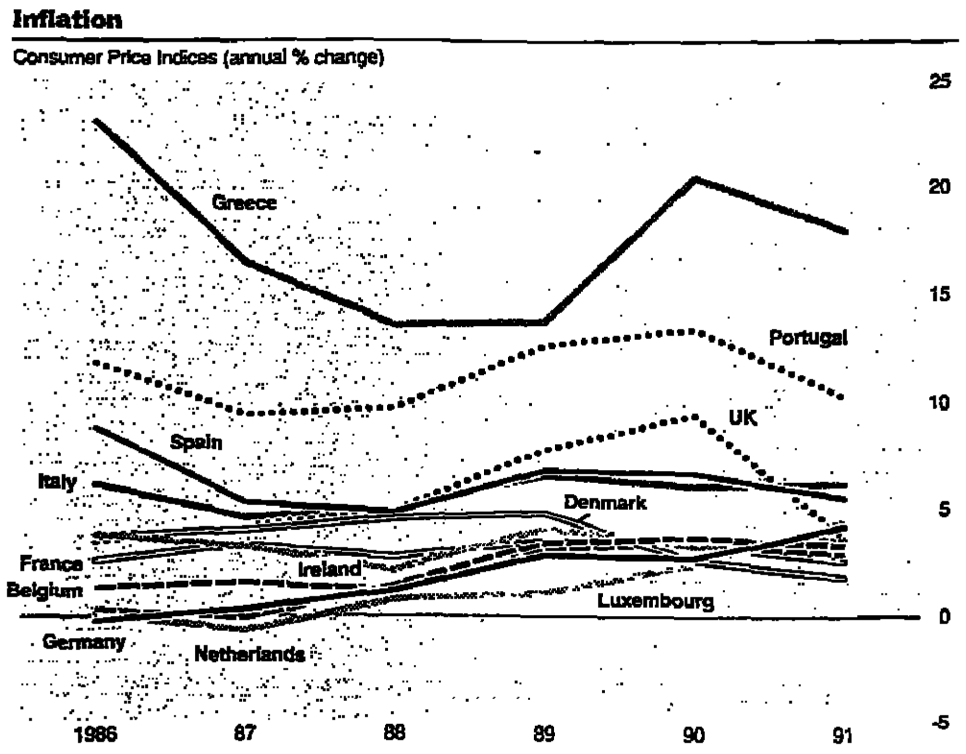
General government balance 1991



General Government Debt 1991



Inflation



Mapping the road to monetary union

This is a summary of the treaty on economic and monetary union agreed at Maastricht:

"THE activities of the Member States and the Community *shall...include:-*

- the irrevocable fixing of exchange rates leading to the introduction of a single currency, the Ecu;
- the definition and conduct of a single monetary policy and exchange rate policy the primary objective of both of which shall be to maintain price stability;-
- and, *without prejudice* to this objective, to support the general economic policies in the Community, in accordance with the principle of an open market economy with free competition."

"These activities of the Member States and the Community shall entail compliance with the following guiding principles: stable prices, sound public finances and monetary conditions, and a sustainable balance of payments."

NATIONAL ECONOMIC POLICIES IN EMU

"Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council."

"The Council shall, acting by a qualified majority on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Community, and shall report its findings to the European Council...The Council shall, acting by qualified majority, adopt a recommendation setting out these broad guidelines."

"Where it is established...that the economic policies of a Member State prove to be not consistent with the broad guidelines referred to" above, or "risk jeopardizing the proper functioning of economic and monetary union, the Council may, acting by a qualified majority on a recommendation from the Commission, make the necessary recommendations to the Member State concerned."

MONETARY POLICY IN EMU

"A European System of Central Banks (ESCB) and the European Central Bank (ECB) shall be established in accordance with the procedures laid down in this Treaty."

"The primary objective of the European System of Central Banks shall be to maintain price stability."

" Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community."

Tasks of the ESCB:"The basic tasks to be carried out through the ESCB shall be:

- to define and implement the monetary policy of the Community;
- to conduct foreign exchange operations consistent with the provisions of Article 109;
- to hold and manage the official foreign reserves of the Member States
- to promote the smooth operation of payment systems.

"The ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system."

The structure of the ESCB:"The ESCB shall be composed of the European Central Bank (in this Treaty called ECB) and of the central banks of the Member States (in this Treaty called national central banks)."

"The decision-making bodies of the ECB are the Governing Council and the Executive Board. The Governing Council shall comprise the members of the Executive Board and the Governors of the national central banks."

"The President, the Vice-President and the other members of the Executive Board shall be appointed by common accord of the Governments of the Member States at the level of Heads of State or of Government, on a recommendation from the Council and after consulting the European Parliament and the Governing Council of the ECB. Their term of office shall be 8 years. The mandate shall not be renewable."

Independence of the ESCB:"When exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any Government of a Member State or from any other body."

"The Community institutions and bodies and the Governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB and of the national central banks in the performance of their tasks."

" Each Member State shall ensure that its national legislation including the Statutes of its national central bank is compatible with this Treaty and the Statute of the ESCB."

THE SUMMIT

Emu

EXTRACTS FROM THE STATUTES OF THE ESCB

"Only members of the Governing Council present in person shall have the right to vote." although, "members...may cast their vote by means of teleconferencing."

"Each member shall have one vote...the Governing Council shall act by a simple majority. In the event of a tie, the President shall have the casting vote."

"The Executive Board shall comprise the President, the Vice-President and four other members. The members shall perform their duties on a full-time basis."

"The Governing Council shall formulate the monetary policy of the Community including...decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in the ESCB. The Executive Board shall implement monetary policy.

"The Governor may be relieved from office only if he no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct. A decision to this effect may be referred to the Court of Justice by the Governor concerned or the Governing Council."

"The national central banks are an integral part of the ESCB and shall act in accordance with the guidelines and instructions of the ECB."

"The ECB may offer advice to and be consulted by the Council, the Commission and the competent authorities of the Member States in the scope and implementation of Community legislation relating to the prudential supervision of credit institutions and to the stability of the financial system...The ECB may fulfil specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings."

"Before the end of 1992, the decision here the seat of the ECB will be established shall be taken by common accord of the governments of the member states at the level of Heads of State or of Governments."

NATIONAL FISCAL POLICIES IN EMU

"The Member States shall ensure that national procedures in the budgetary area enable them to meet their obligations in this area deriving from this Treaty. The Member States shall report their planned and actual deficits and the levels of their debt promptly and regularly to the Commission.

The Treaty prohibits overdraft facilities or any other type of credit facility with the European Central Bank or with the national central banks to Community institutions or bodies, Central Governments, regional or local authorities, public authorities, other bodies governed by public law, or public undertakings of Member States and the purchase directly from them of debt instruments.

"Excessive deficits procedure":"Member States shall avoid excessive government deficits. The Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with the budgetary discipline on the basis of the following two criteria:

- whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, and if so, whether the ratio has not declined substantially and continuously and has not reached a level that comes close to the reference value, or alternatively whether the excess over the reference value is only exceptional and temporary and the deficit remains close to the reference value;
- whether the ratio of government debt to gross domestic product exceeds a reference value, and if so, whether the ratio is not sufficiently diminishing and not approaching the reference value at a satisfactory pace.

"If a Member State does not fulfil the requirements under one of these criteria, the Commission shall prepare a report. The report of the Commission shall also take into account whether the government deficit exceeds the government investment expenditure, and take into account all other relevant factors, including the medium term economic and budgetary position of the Member State."

PROTOCOL ON EXCESSIVE DEFICIT PROCEDURE

The reference values referred to above are:-

- *"3 per cent for the ratio of the planned or actual government deficit to gross domestic product at market prices;*
- *60 per cent for the ratio of government debt to gross domestic product at market prices."*

In the treaty:

- *"Government" means General Government, that is Central Government, regional or local funds, to the exclusion of commercial operations;*
- *"Deficit" means net lending;*
- *"Investment" means gross fixed capital formation;*
- *"Debt" means total gross debt at nominal value outstanding at the end of the year.*

"The Council shall, acting by a qualified majority on a recommendation from the Commission, and having considered any observations which the Member State concerned may wish to make, decide after an overall assessment whether an excessive deficit exists."

"In cases where a Member State persists in failing to put into practice the Council's recommendations, the Council may decide to give notice to the Member State concerned to take, within a specified time limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation."

"As long as a Member State fails to comply,...the Council may decide to apply or, as the case may be, intensify one or more of the following measures:

THE THINKER: the prime minister of the Netherlands, Mr Ruud Lubbers, faces the press after the two days of hard bargaining

- to require that the Member State concerned shall publish additional information, to be specified by the Council, before issuing bonds and securities;
- to invite the EIB to reconsider its lending policy towards the Member State concerned;
- to require that the Member State concerned makes a non interest-bearing deposit of an appropriate size with the Community until the excessive deficit has, in the view of the Council, been corrected;
- to impose fines of an appropriate size.

"The Council shall abrogate any or all of its decisions...if, in the view of the Council, the excessive deficit in the Member State concerned has been corrected."

"When taking the Council decisions...the Council shall act on a recommendation from the Commission by a majority of two thirds of the weighted votes of the Member States, excluding the votes of the Member State concerned."

EXCHANGE RATE POLICY IN EMU

"The Council may, acting by unanimity on a recommendation from the ECB or from the Commission, and after consulting the ECB... conclude formal agreements on an exchange rate system for the ECU vis-a-vis non-Community currencies."

"In the absence of an exchange rate system vis-a-vis one or more non-Community currencies...the Council may, acting by a qualified majority on a recommendation from the Commission and after consulting the ECB, on a recommendation from the ECB, formulate general orientations for exchange rate policy vis--vis these currencies."

"These general orientations shall be without prejudice to the primary objective of the ESCB to maintain price stability."

MONETARY POLICY IN TRANSITION TO EMU

"The second stage for achieving economic and monetary union shall begin on 1 January 1994."

Before that date, each Member State shall:

- abolish "all restrictions on the movement of capital between Member States, and between Member States and third countries";
- "adopt, if necessary, multiannual programmes intended to ensure the lasting convergence necessary for the achievement of economic and monetary union, in particular with regard to price stability and sound public finances."

"The Council shall, on the basis of a report from the Commission, assess the progress made with regard to economic and monetary convergence, in particular with regard to price stability and sound public finances and the progress made with the completion of the implementation of Community law concerning the internal market."

"In the second stage of Member States shall endeavour to avoid excessive government deficits."

" During the second stage each Member State shall, as appropriate, start the process leading to the independence of its central bank."

Functions of the European Monetary Institute:"At the start of the second stage, the European Monetary Institute (in this Treaty called "EMI") shall be established and take up its duties."

"It shall...be directed and managed by a Council, consisting of a President, a Vice-president and the Governors of the Central Banks of the Member States. The President shall be appointed by common accord of the Governments of the Member States at the level of Heads of State or of Government, on a recommendation from...the Committee of Governors or the Council of the EMI, and after consulting the Council and the European Parliament."

"The EMI shall:

- strengthen co-operation between the central banks of the Member States;
- strengthen the coordination of the monetary policies of the Member States, with the aim of ensuring price stability;
- monitor the functioning of the European Monetary System;
- hold consultations concerning issues falling within the competence of the central banks and affecting the stability of financial institutions and markets;
- take over the tasks of the European Monetary Cooperation Fund, which shall cease to exist;
- facilitate the use of the ECU and oversee the development, including the smooth functioning of the ECU clearing system."

Its other duties include to:"prepare the instruments and the procedures necessary for carrying out a single monetary policy in the third stage"; "promote the harmonisation...of the collection, compilation and distribution of statistics in the areas within its field of competence";"prepare the rules for operations to be undertaken by the national central banks in the framework of the ESCB."

" At the latest by 31 December 1996 the EMI shall specify the regulatory, organisational and logistical framework necessary for the ESCB to perform its tasks in the third stage."

"The EMI may, acting by a qualified majority, formulate opinions, or recommendations on the overall orientation of monetary policy and exchange rate policy as well as on the respective measures introduced in each Member State."

"The EMI may, acting unanimously, publish its opinions and its recommendations."

PROTOCOL ON OPERATION OF EMI

"The opinions and recommendations of the EMS shall have no binding force."

"The EMI shall be entitled to hold and manage foreign exchange reserves as an agent for and at the request of national central banks...transactions with these reserves shall not interfere with the monetary policy and exchange rate policy of the competent monetary authority of any Member State."

"The operations of the EMI shall be expressed in Ecu."

"Before the end of 1992, the decision where the Seat of the EMS will be established shall be taken by common accord of the Governments of the Member States at the level of Heads of State or of Governments."

The ecu:"The currency composition of the ECU basket shall not be changed. From the start of the third stage the value of the ECU shall be irrevocably fixed."

CONVERGENCE CRITERIA FOR ENTRY TO EMU

"The Commission and the EMI shall report to the Council on the progress made in the fulfillment by the Member States of their obligations regarding the achievement of economic and monetary union."

"The reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment of each Member State of the following criteria:

- the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of at most the three best performing Member States in terms of price stability;
- the sustainability of the government financial position; this will be apparent from having achieved budgetary positions without a government deficit that is excessive as determined above;
- the observance of the normal fluctuation margins provided for by the Exchange Rate Mechanism of the European Monetary System, for at least two years, without devaluing against any other Member State currency;
- the durability of convergence achieved by the Member State and of its participation in the Exchange Rate Mechanism of the European Monetary System being reflected in the long-term interest rate levels.

"The reports of the Commission and the EMI shall also take account of the development of the ECU, the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the developments of unit labour costs and other price indices."

PROTOCOL ON CONVERGENCE CRITERIA

The details of the convergence criteria are:

- *"price stability" means that a Member State has a price performance that is sustainable, and an average rate of inflation, observed over a period of one year before the examination, that does not exceed that of at most the three best performing Member States in terms of price stability by more than 1½ percentage points. Inflation shall be measured by means of the consumer price index (CPI);*
- the *"government budgetary position" condition means that at the time of the examination the Member State is not the subject of a Council decision...that an excessive deficit exists for the Member State concerned.";*
- *convergence of interest rates means that observed over a period of one year before the examination, a Member State has an average nominal long-term interest rate that does not exceed that of at most the three best performing Member States in terms of price stability by more than 2 percentage points. Interest rates shall be measured on the basis of long term Government bonds or comparable securities."*

TIMING OF MOVE TO EMU

"On the basis of these reports, the Council shall, acting by a qualified majority on a recommendation from the Commission, assess:

- for each Member State whether it fulfils the necessary conditions for the adoption of a single currency;
- whether a majority of the Member States fulfils the necessary conditions for the adoption of a single currency; and recommend its findings to the Council, meeting in the composition of the Heads of State or of Government."

"The Council, meeting in the composition of Heads of State or of Government, shall, not later than 31 December 1996, acting by a qualified majority, decide on the basis of the recommendations of the Council referred to:"

- "whether a majority of the Member States fulfils the necessary conditions for the adoption of a single currency;
- whether it is appropriate for the Community to enter the third stage of economic and monetary union, and if so, set the date for the beginning of the third stage."

"If, by the end of 1997, the date for the beginning of the third stage has not been set, the third stage will start on 1 January 1999."

"Before 1 July 1998, the Council, meeting in the composition of Heads of State or of Government... shall, acting by a qualified majority, and on the basis of the recommendations of the Council, confirm which Member States fulfil the necessary conditions for the adoption of a single currency."

In this case, "the Council... acting by a qualified majority on a recommendation from the Commission, decide whether any, and if so which, Member States will need a derogation as defined (above).

"At least once every two years, or at the request of a Member State with a derogation, the Commission and the ECB shall report to the Council...(to)...decide which Member States with a derogation fulfil the necessary conditions based on the criteria set out (above)."

"The voting rights of the Member States with a derogation shall be suspended for the Council decisions referred to." "Immediately after the decision on the date for the beginning of the third stage has been taken...the Governments of the Member States without a derogation shall appoint...the President, the Vice-President and the other members of the Executive Board of the ECB."

"The full exercise of their powers will start from the first day of the third stage."

" At the starting date of the third stage, the Council shall, acting with the unanimity of the Member States without a derogation...adopt the conversion rates at which their currencies will be irrevocably fixed and at which irrevocably fixed rate the Ecu shall be substituted for these currencies, and the Ecu will become a currency in its own right."

PROTOCOL ON TRANSITION TO STAGE 3 OF EMU

This protocol confirms "the irreversible character of the Community's movement to the third stage by signing the new Treaty provisions on Economic and Monetary Union."

"Therefore all Member States shall, whether they fulfil the necessary conditions for the adoption of a single currency or not, respect the will for the Community to enter swiftly into the third stage of Economic and Monetary Union, and therefore no Member State shall prevent the entering into the third stage."

PROTOCOL REFERRING TO THE UK (the "opt-out clause")

"The United Kingdom shall not be obliged or committed to move to the third stage of economic and monetary union without a separate decision to do so by its government and Parliament."

" The United Kingdom shall notify the Council whether it intends to move to the third stage of economic and monetary union before the Council makes its assessment under Article 109 F...unless the United Kingdom notifies the Council that it intends to move to the third stage, it shall be under no obligation to do so."

"The United Kingdom shall not be included among the majority of Member States which fulfil the necessary conditions" to move to EMU.

"The United Kingdom shall have the right to move to the third stage provided only that it satisfies the necessary conditions."

PROTOCOL RELATING TO DENMARK

"The Danish Constitution contains provision which may imply a referendum in Denmark prior to Danish participation in the third stage of Economic and Monetary Union."

"In case of a notification that Denmark will not participate in the third stage, Denmark shall have an exemption."

"In such case, Denmark shall not be included among the majority of Member States which fulfil the necessary conditions."

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THE MAASTRICHT TREATY

A step towards 'ever closer union'

These articles are a summary of the treaty on political union.

"By this Treaty, the High Contracting Parties establish among themselves a European Union."

"This Treaty marks a new stage in the process creating an ever closer Union among the peoples of Europe, where decisions are taken as closely as possible to the citizens".

OBJECTIVES, PRINCIPLES AND CITIZENSHIP

(The phrase "ever closer union" replaces the words "Union with a federal goal" which were in the last draft of the treaty by the Dutch presidency).

"The Union shall be founded on the European Communities, supplemented by the policies and cooperation established by this Treaty.

"Its task shall be to organize, in a manner demonstrating consistency and solidarity, relations between the member States and their peoples."

Objectives (articles B & 2)

"The Community shall have as its task, by establishing a common market, an economic and monetary union and by implementing the common policies or activities referred to . . .the promotion, throughout the Community, of a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard and quality of living, and economic and social cohesion and solidarity between Member States."

This "task" replaces that declared by the Treaty of Rome, namely "to promote . . .a harmonious and balanced expansion [of economic activities], an increase in stability, an accelerated standard of living and closer relations between the States belonging to it."

Five specific objectives are set out:

● "To promote economic and social progress which is balanced and sustainable, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and the establishment of economic and monetary union including, finally, a single currency".

● "To assert its identity on the international scene, in particular through the implementation of a common foreign and security policy, which shall include the eventual framing of a common defence policy".

● "To strengthen the protection of the rights and interests of the nationals of its Member States, through the introduction of a citizenship of the Union".

● "To develop a close co-operation on home affairs and in the judicial field."

● "To maintain in full the *'acquis communautaire'* and build on it".

THE SUMMIT

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Principles (articles F, 3, 3b)

"The Union shall provide itself with the resources necessary to attain its objectives and carry through its policies", but with two specific limitations: "The Union shall have due regard to the national identity of its Member States, whose systems of government are founded on the principles of democracy".

"The Union shall respect the rights and freedoms as guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms, and as they result from the constitutional traditions common to the Member States as general principles of Community law".

"In the areas which do not fall within its exclusive jurisdiction, the Community shall take action, in accordance with the principle of subsidiarity".

Defining subsidiarity for the first time, article 3b states that, in such cases, "the Community shall take action . . .only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community.

"Any action by the Community shall not go beyond what is necessary to achieve the objectives of the Treaty."

The "activities of the Community" *referred to are those set out in the Treaty of Rome, as amended by the Single European Act, with the following significant additions and changes:*

● "Measures concerning the entry and movement of persons in the internal market".

● "The strengthening of economic and social cohesion".

● "A policy in the sphere of the environment".

● "The promotion of research and technological development".

● "Measures in the spheres of energy, consumer protection, civil protection and tourism".

● "Encouragement for the establishment and development of trans-European networks".

● "Contribution to the attainment of a high level of health protection".

● "Contribution to education and training of high quality, and to the flowering of the cultures of the Member States".

Citizenship (part II, parts A-E)

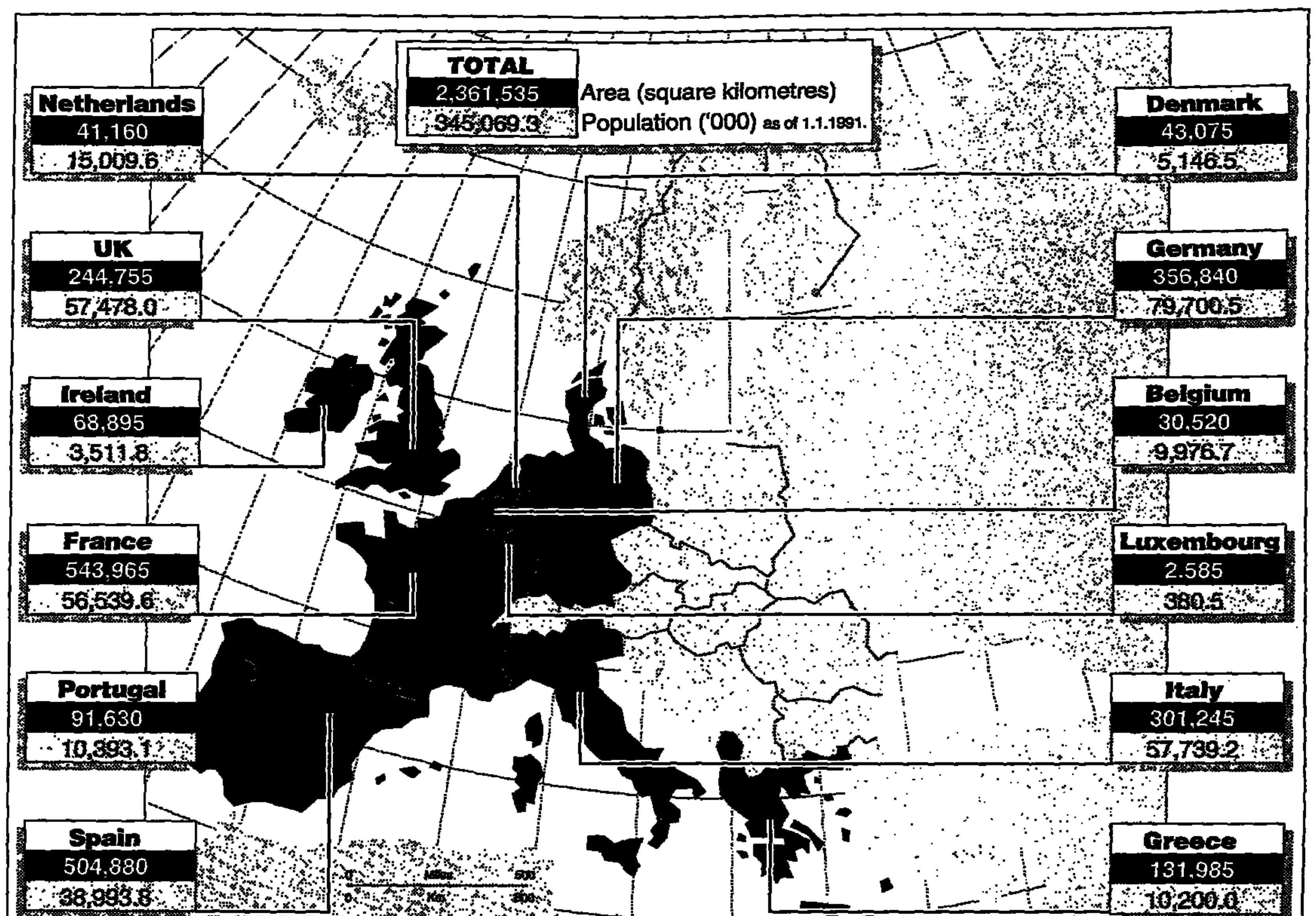
"Citizenship of the Union is hereby established. Every person holding the nationality of a Member State shall be a citizen of the Union.

"Every Union citizen shall have the right to move and reside freely within the territory of the Member States", and to receive consular support.

Union citizens resident in Member States of which they are not nationals will have the right to to vote and stand as a candidates at municipal and European elections.

Detailed arrangements for the exercise of these rights are to be adopted by the Council, acting unanimously, before the end of 1994.

Union citizens will be able to petition the European Parliament, and apply to the new Community ombudsman.



Co-operation key to relations with others

"THE Union and its Member States shall define and implement a common foreign and security policy."

"The objectives of the common foreign and security policy shall be:

● to safeguard the common values, fundamental interests and independence of the European Union;

● to strengthen the security of the Community and its Member States in all ways;

● to preserve peace and strengthen international security ...

● to promote international co-operation;

● to develop and consolidate democracy and the rule of law, and respect for human rights and fundamental freedoms."

Foreign and security policy will be dealt with by "systematic co-operation" between member governments, and "gradually implementing" joint action between them.

It will not formally be subject to Community institutions or brought within the Treaty of Rome.

FOREIGN AND SECURITY POLICY

"Member States shall inform and consult one another within the Council on any matter of foreign and security policy of general interest in order to ensure that their combined influence is exerted as effectively as possible by means of concerted and convergent action.

"Whenever it deems it necessary, the Council shall define a common position. Member States shall ensure that their national policies conform to the common positions.

"Member States shall co-ordinate their action in international organisations and at international conferences...at international conferences where not all the Member States participate, those which do take part shall uphold the common positions."

When the Council of ministers decides – by unanimity – that "an area or matter covered by the foreign and security policy should be the subject of joint action, it shall lay down the specific scope, the Union's general and specific objectives in carrying out such action, and if necessary its duration, and the means, procedures and conditions for its implementation," and specific objectives in carrying out such action and the conditions, means and procedures for and, if necessary, the duration of its implementation.

"The Council shall, when adopting the joint action and at any stage during its development, define those matters on which decisions are to be taken by qualified majority."

However, an accompanying declaration adds: "Member States will, with regard to Council decisions requiring unanimity, to the extent possible avoid to prevent a unanimous decision where a qualified majority exists in favour of that decision.

"If there is a change in circumstances having a substantial effect on a question subject to joint action, the Council shall review the principles and objectives of that action and take the necessary decisions. As long as the Council has not acted, the joint action shall stand.

"Joint actions shall be binding upon the Member States in the positions they adopt and in the conduct of their activity."

The presidency of the Council will represent the Union for matters coming within the common foreign and security policy.

It will "be responsible for the implementation of common measures; in that capacity it shall in principle express the position of the Union in international organisations and international conferences."

In such tasks "the Presidency shall be assisted if need be by the previous and next Member State to hold the Presidency. The Commission shall be fully associated in these tasks."

Member states' diplomatic and consular missions, and Commission delegations in third countries and international conferences, "shall co-operate in ensuring that the common positions and common measures adopted by the Council are complied with and implemented.

"They shall step up co-operation by exchanging information, carrying out joint assessments and contributing to the implementation of the [common foreign policy]."

Heads of government, meeting in the European Council, "shall define the principles of and general guidelines for the common foreign and security policy."

The Council of Ministers "shall take the decisions necessary for defining and implementing common foreign and security policy on the basis of the general guidelines adopted by the European Council.

"It shall ensure the unity, consistency and effectiveness of action by the Union.

"The Council shall act unanimously, except for procedural questions", and in the arrangements described above for joint action.

"Any Member State or the Commission may refer to the Council any question relating to the common foreign and security policy and may submit proposals to the Council. In cases requiring a rapid decision, the Presidency, of its own notion, or at the request of the Commission or a Member State, shall convene an extraordinary Council meeting within forty-eight hours or, in an emergency, within a shorter period."

The Western European Union will be developed as the defence component of the European Union and as the means to strengthen the European pillar of the Atlantic Alliance.

Decisions taken by the Western European Union "shall not affect the obligations of certain Member States under the North Atlantic Treaty and be compatible with the common security and defence policy established within that framework."

The European Court of Justice will have no powers to oversee the common foreign and security policy, and the *Commission little direct role* beyond ensuring consistency between the Community's *external economic policy and* its common foreign policy, and referring inconsistencies to the council.

The European Parliament will be consulted on the "main aspects and the basic choices of the common foreign and security policy.

"The European Parliament shall be kept regularly informed by the Presidency and the Commission on the *development of the Union's foreign* and security policy."

In a separate "declaration", *member states also affirm that* the following topics may be the subject of a joint action: industrial and technological co-operation in the field of armaments; the transfer of military technology to third countries and the control of arms exports; non-proliferation issues; arms control, negotiations on arms reduction and confidence-building measures, particularly in the context of the Conference on Security and Co-operation in Europe (CSCE); involvement in peace-keeping operations in the United Nations context; involvement in humanitarian intervention measures; questions relating to the CSCE; relations with the Soviet Union; and transatlantic relations.

Separate protocol on the quality of life

A SEPARATE protocol on social policy is agreed by the 11 member states besides Britain, and the treaty authorises them "to have recourse to the institutions, procedures and mechanisms of the European Community" for the purpose of formulating and implementing policy.

The 11 commit themselves to "the promotion of employment, improved living and working conditions, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combatting of exclusion".

SOCIAL POLICY

Action will be taken, by qualified majority, to "support and complement" governments' activities in the following fields:

● improvement in the working environment to protect workers' health and safety;

● working conditions;

● the information and consultation of workers;

● equality between men and women with regard to labour market opportunities and treatment at work;

● the integration of persons excluded from the labour market.

However, directives on these issues "shall avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of small and medium-sized undertakings".

Unanimity among the 11 will be required for action over social security and social protection; protection of workers where their employment contract is terminated; representation and collective defence of the interests of workers and employers; conditions of employment for third-country nationals legally present in Community territory; financial contributions for the employment promotion.

Watchdog role for parliament

THE European Parliament will be allowed to set up committees of inquiry to investigate . . .alleged contraventions or maladministration in the implementation of Community law, except where the case is already sub judice.

INSTITUTIONS

Parliament will appoint an Ombudsman to hear complaints concerning instances of *maladministration* in the activities of Community bodies.

It will also have extra powers to scrutinise Community finances.

The parliament will have new powers to amend and veto certain Council acts.

European Commission: The Commission's membership will be reduced from 17 to 12. The president shall be appointed by governments "by common accord, after consulting the European Parliament", and once appointed the entire commission will be subject to a vote of confidence from the Parliament.

From 1 January 1995 the Commission's term of office will be extended from four to five years.

Committee of the Regions: The committee, a new Community institution, will comprise representatives of regional and local authorities. It was have an advisory role. Members will be appointed by their respective governments for four-year terms.

'European dimension' in education is encouraged

THE Community will encourage cooperation on education policy between Member States, supplementing their action "while respecting the responsibility of the Member States for the content of teaching, the organization of education systems and their cultural and linguistic diversity."

The Council, acting by qualified majority, will issue non-binding recommendations to encourage student, teacher and youth mobility and exchanges; to encourage distance learning; and to develop the "European dimension in education."

"The Community shall implement a vocational training policy which shall support and supplement the action of the Member States, while fully respecting the responsibility of the Member States for the content and organization of vocational training."

Regional development

"The Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least-favoured regions."

The EC's structural funds, the European Investment Bank and other existing financial instruments will be used to this end. Every three years the Commission will report to the Council, Parliament and the Committee of the Regions "on the progress made towards *achieving economic and social* cohesion and on the manner in which the various means prescribed in this Article have contributed to it. This report shall, if necessary, be accompanied by appropriate proposals."

Under a protocol on economic and social cohesion, the Twelve agree that the Cohesion Fund to be set up by the end of 1993 will support environmental and infrastructure projects "in Member States with a per capita GNP of less than 90 per cent of Community average".

Public health

"The Community shall contribute towards ensuring a high level of human health protection by encouraging cooperation between the member States and, if necessary, lending support to their action."

Member States will "coordinate among themselves their policies and programmes" in this area." There will be no direct Community competence.

Culture

"The Community shall contribute to the flowering of the cultures of the Member States, while respecting national and regional diversity, and bringing the common cultural heritage to the fore."

Community action shall support and supplement national action in the following areas: "improvement of the knowledge and dissemination of the culture and history of the European peoples"; "conservation and safeguarding of the cultural heritage of European significance"; "cultural exchanges"; "artistic and literary creation, including in the audiovisual sector".

Research and development

The Community's aim shall be "to strengthen the scientific and technological bases of Community industry and to encourage it to become more competitive at international level."

"A multiannual framework programme, setting out all the activities of the Community, shall be adopted by the Council", acting unanimously.

Environment

The Community's will act to "protect human health", "to preserve, protect and improve the quality of the environment", "to protect human health", "to ensure prudent and rational utilisation of natural resources", and "to promote measures at international level to deal with regional or worldwide environmental problems."

Policy "shall be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source and that the polluter should pay. Environmental protection requirements must be integrated into the definition and implementation of other Community policies."

Energy

Community action will be aimed at the following objectives "within the framework of a market economy": promoting security and regularity of supplies under satisfactory economic conditions; ensuring an effective internal market in this sphere; ensuring a "suitable reaction in the event of a crisis, particularly in the oil sector"; "promoting the rational use of energy and the development and use of potentially profitable new and renewable energy sources."

Trans-European networks

Further to integrate the internal market, "the Community shall contribute to the establishment and development of trans-European networks in the areas of transport, telecommunications and energy infrastructures."

"Within the framework of a system of open and competitive markets, action by the Community shall aim in particular at promoting the interconnection and inter-operability of national networks as well as access to such networks. It shall take account in particular of the need to link island, landlocked and peripheral regions with the central regions of the Community."

The Council may, by qualified majority, establish guidelines "covering the objectives, priorities and broad lines of measures envisaged in the sphere of trans-european networks".

Industry

The Community "shall ensure that the conditions necessary for the competitiveness of the Community's industry exist.". Its action will be aimed at "speeding up the adjustment of industry to structural changes; encouraging a favourable environment for initiative and the development of undertakings throughout the Community, particularly small and medium-sized undertakings; encouraging a favourable environment for co-operation between undertakings; fostering better exploitation of the industrial potential of policies of innovation, research and technological development."

POLICIES

Overseas development

Community policy shall foster "the lasting economic and social development of the developing countries, and most especially the most disadvantaged among them, the gradual smooth integration of the developing countries into the world economy, and the campaign against poverty in the developing countries." It shall also contribute to the general objective of developing and consolidating democracy and the rule of law." The Council, by qualified majority, "shall adopt the measures necessary to further" these objectives.

Judicial and home affairs

Like foreign and security policy, these fields will not come within the formal Community structure. But member states "shall regard as matters of common interest": asylum policy; immigration policy and policy regarding the entry, movement and residence of third-country nationals; measures to combat drug addiction; the combat of international fraud; judicial cooperation in civil and criminal matters; customs cooperation; police cooperation for the purposes of preventing and combating terrorism, unlawful drug trafficking and other serious forms of international crime, including the organization of a Union-wide system for exchanging information within a European police force."

A common visa policy will be agreed by the Council acting by unanimity until January 1996, and by qualified majority thereafter. In the event of "an emergency situation in a third country posing a threat of an inflow to the Community of "nationals from that country", the Council may introduce visa requirements for up to six months.

Future development

Another inter-governmental conference will meet in 1996 to review the treaty. "Any European State may apply to become a Member of the Union." Applications will be decided by the European Council, acting unanimously after consulting the Commission and after receiving the assent of the European Parliament.

HAPPY BIRTHDAY Hans van den Broek: the Dutch foreign minister, with raised glass, and Commission president Jacques Delors celebrate the end to the summit

Germany decides on two homes for bureaucracy

By Quentin Peel in Bonn

EIGHT full government ministries will remain in Bonn, and two-thirds of all the central government jobs will stay behind, when the German parliament and government move to Berlin, the cabinet decided yesterday.

The decision means that effectively the country will have two capitals in terms of national administration, with important employers like the defence ministry, agriculture, health, education, research and technology, and posts and telecommunications, staying in Bonn.

The decision is clearly a sop to the campaign to keep the maximum number of jobs and decision-making in the west of the united Germany, after the decision by the Bundestag last June to move to Berlin. The plan presented to the cabinet yesterday by Mr Rudolf Seiters, the interior minister, will move the foreign ministry, finance, economics, labour, internal affairs, justice, transport, construction, labour and social affairs, family affairs, women and children, to Berlin.

Mr Seiters said that the government had decided to keep specific policy areas in Bonn, and not specific ministries. However, the decision meant that out of 21,200 ministry jobs currently in Bonn, some 13,900 will remain there even after the core of the government moves to Berlin.

He declined to give any estimate of the cost of the move, saying that the decision was one of principle and the details remained to be calculated. Unofficial estimates put the cost at anything up to DM100bn ($63.6bn), although Berlin itself believes it can be done for less than DM20bn.

Although the plan is seen as an attempt to soften the blow to Bonn, it was welcomed yesterday more warmly by the Berlin authorities. Mr Eberhard Diepgen, the mayor of Berlin, said it was "an important step in the right direction". He emphasised that all ministries would have at least an office in Berlin to service their ministers.

Mr Hans Daniels, the mayor of Bonn, said the move was "a positive sign, but no grounds for rejoicing".

The German cabinet also heard a report on the collapse of the negotiations on the government's tax reform package on Tuesday night. Mr Theo Waigel, the finance minister, said he was determined to maintain the government plan to raise value added tax from 14 to 15 per cent in January, 1993, but that the proposal was flatly rejected by the opposition Social Democrats, who can effectively block the package.

Italy to bury way of life which priced labour out of market

By Robert Graham in Rome

WAGE INDEXATION, a way of life in Italy for 46 years, is to be quietly buried in the new year.

The so-called *scala mobile*, which indexed wages to inflation, will disappear more by default than by design. After almost six months of tortuous three-way negotiations on wage costs between the government, the Italian industrialists' confederation, Confindustria, and the unions, it has been agreed to shelve further discussion until June 1992.

As part of this agreement, the three sides have decided not to seek a renewal of the *scala mobile* law which ends on December 31. Confindustria has long sought the abolition of the *scala mobile* and has fought hard to avoid its renewal, despite the absence of any new deal on tackling wage costs which are now nearly twice as high as in Germany.

"This is the burial of the *scala mobile* as far as we are concerned," Mr Innocenzo Cipoletta, managing director of Confindustria said. "We understand it will not be operative in May 1992 when the next revision was to have been due."

According to Mr Cipoletta, Confindustria estimates the average wage increase in 1992 will be 5.6 per cent, against inflation of 5 per cent. If the *scala mobile* mechanism of compensation were to have continued, this would have entailed topping up wage increases to 7.5 per cent. Since the early eighties the complex system of wage indexation has been under fire and began to be eroded after a referendum in 1985 endorsed government's efforts to reduce indexation's inflationary cover. The unions have also realised that this form of indexation was both inflationary and increasingly difficult to defend.

Thus by not opposing the lapse of the law, they have found a discreet way of ensuring its demise. In exchange the unions have wrung significant concessions from the government whereby a 0.90 per cent increase in social security contributions proposed in the 1992 budget will be dropped in exchange for a slight increase on higher income taxe rates.

They have also obtained commitments from the government to sustain financial flows to the South. This conforms to their philosophy that they are willing to make sacrifices provided such sacrifices are spread throughout society.

The government has obtained agreement that utility prices will be kept 1 per cent below the inflation target for 1992 of 4.5 percent, and that new public sector employment will be tightly monitored. Thus all parties have emerged from the talks with something while signalling to Italy's EC partners that the country is finally taking seriously the problem of tackling labour costs.

Turkey in dumping move against Pakistan

By Daniel Green

TURKEY yesterday imposed a 20 per cent duty on imports of cotton yarn from Pakistan in a rare case of dumping allegations made by one developing country against another.

The Turkish textile industry has been hard hit by imports from lower cost producers in Asia.

About 22,000 tonnes of Pakistani cotton were sold to Turkey in 1990, according to official sources in Ankara. This accounted for almost three quarters of all the cotton yarn sold there. One Turkish industrialist yesterday accused Pakistan of subsidising 25 per cent of the cost of cotton yarn. He added that this was the first time Turkey had imposed anti-dumping tariffs.

The new duty is effective immediately. It affects yarn which consist of at least 85 per cent cotton.

Turkey has itself been a frequent target for "anti-dumping" actions by EC member states. In June, the EC Commission imposed provisional countervailing duties on imports of Turkish polyester fibres and yarns. It investigated 11 Turkish subsidy schemes and found eight to be harming Community producers. Turkey has also completed an inquiry into India-origin cotton yarns.

Cuban-Italian phone venture

CUBA has broken with its long-standing reluctance to allow foreign private capital into strategic sectors of the economy by agreeing to a joint company with Italcable, the international arm of STET, the Italian state telecommunications holding company, writes Robert Graham.

The new company will be owned jointly by the Cuban ministry of posts and Italcable and will handle all overseas telecommunications. Until now Cuba has only permitted foreign capital to be invested in tourism; but the island's telephone system, installed well before the 1959 revolution, has been deteriorating rapidly due to lack of spares.

N Korean prime minister Yon Hyong Muk and S Korean counterpart Chung Won Shik in Seoul

Korean talks focus on nuclear issue

SOUTH Korea will open its own and US military installations on its territory to North Korean inspection if Pyongyang agrees to a simultaneous inspection of its nuclear facilities, Mr Chung Won Shik, the South Korean prime minister, announced yesterday, writes John Ridding in Seoul.

Mr Chung's proposal is the most detailed attempt so far to conclude an agreement on joint nuclear inspection. It reflects increasing concern in Seoul that North Korea is developing a nuclear weapon and will have completed a device by the middle of the decade.

Mr Yon Hyong Muk, North Korea's prime minister, who is heading his country's delegation to the fifth round of negotiations between the prime ministers of the two countries, laid down a different proposal for denuclearisation of the peninsula.

He said yesterday that the two Korea's should not conclude any agreement with foreign countries which "allows the deployment and stockpile of nuclear weapons and accepts the offer of a nuclear umbrella".

Mr Yon's comments were a reference to the US, which is believed to be in the process of withdrawing tactical nuclear weapons from South Korea but will still provide nuclear protection of its ally through air and sea-based systems.

OECD warns on role of women

By Alice Rawsthorn in Paris

WOMEN must be allowed to play a full part in society if the developed economies are to prosper in the future, according to a new study published yesterday by the Organisation for Economic Co-operation and Development.

In the 1970s and 1980s any initiatives intended to improve the position of women tended to concentrate on anti-discrimination legislation and equal opportunities programmes. The OECD argues that, while such initiatives are important, deeper structural changes are required in order to enable women to make a full contribution to society. These changes include encouraging men and women to share domestic responsibilities so women can be more active in the labour market and men can become more involved with family life.

The study suggests that the development of new employment models such as flexitime, job-sharing and enabling people to work part-time for limited periods, with an option to resume full-time work, might help to achieve this.

The OECD argues that while provision for maternity leave is crucial, governments should also make it more attractive for men to take family leave by making provision for earnings replacement and employment protection, as well as for training when employees return.

Child care is identified as an important area for improvement. The study advocates that employers should become more active in organising or funding child care facilities during working hours and that there should be greater provision for holiday and after-school care. The OECD concludes that, unless women are allowed to play a fuller role, the problem of skill shortages will worsen and the developed economies will find it increasingly difficult to nurture flexible workforces for the future.

Australian conservatives may lose last state

By Kevin Brown in Sydney

AUSTRALIA'S only conservative state government faces a difficult by-election in the new year after a court ruled yesterday that the election of one of its MPs was invalid.

The New South Wales Court of Disputed Returns said that the election result should be set aside because of a polling clerk's mistake which disenfranchised 237 electors.

The judgement increases political pressure on the conservative Liberal/National Party government, which won 48 seats in the 99-seat state parliament at a state-wide election in May.

The coalition holds power with the support of five independents who recently signed a stable government pact with Mr Nick Greiner, the state premier.

The opposition Labor Party holds 46 seats.

Victory in the by-election would leave both main parties with 47 seats, possibly triggering a realignment of independents which could put Labor into government.

The New South Wales government's problems reflect growing political instability in Australia, which now has minority governments in four of the six states.

The minority Labor government of Tasmania also faces losing office next year following the collapse of a coalition with a group of Green MPs and indications that the opposition Liberal Party will force a state election.

Vanuata crisis nears an end

The Pacific island state of Vanuatu yesterday appeared likely to emerge from four months' political instability with a coalition government of English- and French-speaking parties, writes Kevin Brown.

Mr Donald Kalpokas, the prime minister, said that his government would hand over office to a coalition of Fr Walter Lini's National United Party and the French-speaking Union of Moderate Parties.

Japanese set for 40% of world vehicle output

By Steven Butler in Tokyo

JAPANESE companies are likely to account for at least 40 per cent of world car and truck output by the end of the decade, a Financial Times management report* on the internationalisation of the Japanese automotive industry says.

But the report adds that even this will not mark the end of the internationalisation of the Japanese industry. The market share of Japanese companies could exceed 40 per cent, if vehicle output in the traditional market economies were to grow by less than 15-20 per cent in the period.

Growth is expected in all the main car markets, including Japan. The reports cites a forecast by the ministry of international trade and industry that car demand in Japan will grow by 18 per cent from 1989 to 2000. Some of the increased demand will be supplied by growth in the level of imported cars, from about 250,000 in 1990, but this would leave plenty of opportunities for Japanese vehicle makers as well.

In Europe, the Japanese are expected to be producing 3m cars a year after a decade of intense competition with European makers. This would account for a fifth of the market. In Canada and the US, output is expected to hit 3m units, excluding future US-Japanese joint-venture production. Penetration of the entire North American market is projected at a third, against 24 per cent today.

The Japanese makers are also expected to dominate the emerging markets in Asia through a combination of local assembly plants, joint ventures, the export of knock-down assembly kits, and technology transfers to indigenous manufacturers.

● An influx of unskilled foreign workers into factories around Tokyo has touched off rumours that they are committing rapes, robberies and other crimes, officials say, AP reports from Tokyo.

Almost all the rumours have proved false, the National Police Agency said yesterday, but some Japanese are worried about rising xenophobia as the nation reluctantly opens its doors to much-needed foreign labour. "This is an issue the nation must begin to face squarely if 'internationalisation' and the greater role in the world community we hear so much about are to have any meaning," the English-language Japan Times said.

Japan is suffering from an acute labour shortage, and its high wages have attracted thousands of Asians and other foreigners to service, construction and factory jobs, despite tight restrictions on working visas. Often they come on tourist visas and stay illegally.

**Internationalisation of the Japanese Automotive Industry; FT Management Reports, 50-60 Broadway, London SW1H OHB; tel 071-799 2002, fax 071-799-2259. UK £240; overseas £250 or $425.*

Dreaming of a big return to profit

Canute James asseses Cuban-Americans' chances of a boom in their homeland

ANTICIPATING what they consider to be the inevitable and imminent collapse of the government of Cuban President Fidel Castro, Cuban-Americans in Florida are savouring the prospect of economic opportunities in their land of their roots.

"A free Cuba will be the single largest economic boon for Florida since the invention of the air-conditioner," said Mr Bruce Colan, a Miami lawyer and member of a committee studying the likely economic impact of political reform in Cuba on the economy of Florida.

The Cuban community in the US state, which holds most of the 1.3m Cubans in the US, seems to have decided that the increasing problems in Cuba will soon overwhelm the island's government.

A report by the Greater Miami Chamber of Commerce reckoned political reforms will bring "a massive increase in US-Cuban trade, which will be centered in or flowing through Florida."

"There are cruise shipping lines which have contingency plans to get into Cuba quickly," said Mr Colan. "Fast food and car rental franchises have already been awarded and can be made operational at very short notice."

The report anticipated that a post-Castro Cuba would see "substantial moves towards democratisation, freedom of expression and association, and improvement in human rights."

These changes would create an atmosphere conducive to a significant role for private business on the island.

The report added that, in the short term, there may well be adverse effects, mixed with a euphoria similar to that which accompanied the fall of the Berlin Wall, but that, in the medium to long term, Florida could enter an era of unprecedented prosperity as the centre of trade.

"The Port of Miami and the Miami International Airport are the logical points through which Cuba will export sugar, nickel, fish, tobacco, citrus and other commodities. Similarly, flowing to the island will be consumer products, machinery, computers, medical equipment, pharmaceutical and construction equipment needed to rebuild Cuba's infrastructure," the report anticipated.

It added that US companies which had investments in Cuba before the Castro regime began in 1959, and which did significant business with Cuba then, will have an edge in a re-opening of the Cuban market.

One of the main sectors identified for investments by Cuban-Americans in Florida is tourism. The report said the opening of Cuba to mass tourism from the US would give Cuba access to the most lucrative tourist market in the world. "Cuba is today the single largest most attractive unexploited destination in the western hemisphere for US tourists."

The report also cited possibilities for foreign investment in Cuba's sugar industry and other areas of agriculture, including citrus, and in the nickel industry. It said also that there are possibilities for investments in water and sewer systems, telecommunications, public transportation, construction, biotechnology and light industry.

The report suggested that social and economic policies of the Castro government would leave the country able to take advantage of investment opportunities and stimulate the economy of Florida.

"Cuba's population has the highest literacy rate in the Caribbean, at over 80 per cent," the report added.

The report described as a valuable asset "the approximately 1m Cuban-born men and women who have emigrated to the US. The most affluent of these live in Florida and have developed financial and managerial skills and business acumen to take full advantage of changes in Cuba."

There appears little consideration, however, of likely friction between Cuban-Americans and those who stayed home. According to some leaders of the Cuban community in Florida, Cubans on the island would not take kindly to returnees grabbing business opportunities, to the exclusion of those who lived with the Castro revolution.

There is widespread expectation that the Castro administration will collapse but no agreement on how this will happen.

Cuban-Americans in Florida dismiss suggestions that their expectations of an early collapse of the Castros government could be frustrated. They say there is no question that the island's increasing problems will bring the government down.

The chamber of commerce's report concluded that, based on the current Cuban economic and political situation, Cuba will undergo fundamental change "by the end of the next [US] presidential term, if not within the current presidential term."

"I think all of this is more than slightly too optimistic," counters Mr Anthony Maingot of the Latin American and Caribbean Department of the Florida International University, and editor of a magazine on hemispheric affairs.

"There is nothing to suggest that the Cuban government will collapse soon. Fidel Castro will be around for some time yet."

EC, US leaders push for end to farm row

By William Dullforce in Geneva

EC and US political leaders, including President Bush, UK premier John Major and German Chancellor Helmut Kohl, are trying to force an end to the long-running EC-US farm subsidy row blocking completion of the Uruguay Round trade talks.

After a month of bilateral haggling following President Bush's agreement to scale down US demands for subsidy cuts, the two sides still have to close gaps on several outstanding issues. The subsidy issue that may trigger an overall deal concerns farm exports.

The US has insisted that cuts should not be only in budget outlays, as the French want, but should affect the volume of the EC's subsidised exports on to world markets. These should come into effect at the end of an initial five years.

For wheat, seen as a touchstone, Brussels' farm negotiators have agreed to a mixture of budgetary and quantitative cuts to leave 13m-15m tons of subsidised produce on the market. The US says it wants a maximum 11m tonnes, otherwise world wheat trade would continue seriously distorted by subsidised export volumes.

The two standpoints of 11m and 15m tonnes of wheat compare with the 20m tonnes the EC exported in 1990, the 22m tonnes it is expected to export this year, and the 17m tonnes a year it averaged between 1986 and 1990. From that perspective, the EC seems to be making a major concession.

But, US officials say, the EC exported only 13m-14m tonnes of wheat in 1986 when the Uruguay Round started; a cut to 15m or even 13m would not therefore offer any real reduction from the point at which it was agreed an effort had to be made to cleanse world farm trade of distorting subsidies.

Moreover, the Americans say, the EC is demanding it be allowed to sell off its existing supplies (some 17m tonnes of cereals in intervention stocks) during the five years. A similar situation applies to beef where a gap persists between EC and US targets for the volume of subsidised exports to be reached after five years, and where the EC wants to run down its existing stock of some 860,000 tonnes.

Export subsidy cuts are only one facet of the farm deal envisaged in the Gatt round. In principle, it is agreed that domestic supports to farmers and border barriers to farm imports should be reduced 30 per cent over the five years.

The US and the Cairns Group are especially concerned at EC insistence on including the compensatory payments and direct support to its farmers in a "green box" combining supports which do not distort trade. These would not need to be reduced. The Americans say that, while some of the payments could be fairly categorised as non-trade distorting, others would not.

Complicating the "green box" question is one of how to treat US deficiency payments to its farmers, which Washington concedes can distort trade but are also similar to the compensatory payments envisaged in the EC's Common Agricultural Policy (CAP) reform and which Brussels wants put in the "green box".

A further problem arises from the link in the CAP reform between compensatory payments and farmers' agreement to withdraw land from production. The US is decreasing its set-asides just as the EC plans to develop its parallel programme. One important item the EC and US agree, to the mortification of the Japanese, Koreans, Swiss and Nordic countries, is tariffication, the conversion of all import barriers to customs duties.

If Mr Arthur Dunkel, Gatt director-general, is forced to table his version of a farm accord on December 20, it will certainly not provide for any exceptions to full tariffication of border barriers.

Because customs duties will in many cases be high after conversion of non-tariff barriers, it is recognised that countries must complement tariffication by allowing a certain minimum access for exports. Here again, the EC and US are generally agreed on 3-5 per cent of domestic consumption as a reasonable target for initial access commitments.

But an important hitch in the EC-US talks on border barrier cuts arises from the EC's demand for "rebalancing". In return for changing its system of support to oilseed processors, effectively ensuring domestic producers a market, Brussels wants to control imports of non-grain feedstuffs, for instance, by freezing them at current levels. US corn gluten producers oppose any diminution of their present duty-free access to the EC market. US negotiators have stressed rebalancing is "just not on".

Search continues for Israeli-Palestinian talks format

THE Middle East peace process continued to be obstructed yesterday by a dispute over whether Israel would meet separately with Palestinians or only as part of a joint delegation with Jordan, Roger Matthews and Tony Walker write from Washington.

Israeli negotiators in Washington resumed bilateral talks with Syria and planned a further session with the Lebanese delegation, but arguments persisted in a State Department corridor over the format for talks with the Palestinians.

Israel fears that by accepting direct talks with the Palestinians alone it will be granting them enhanced political recognition. During the Middle East peace conference in Madrid early last month it was agreed that the Jordanian-Palestinian delegation would follow a twin-track approach to the negotiations.

Israel and Palestine disagree, however, on what the twin-track approach means. This is interpreted by The Palestinians say this means as meaning separate rooms and separate negotiating teams in dealing with those issues which involve Jordan and those which deal solely with Palestinian matters.

Israel has stuck by its insistence that the joint delegation must be responsible for negotiating all the issues because it foresees any political gains for the Palestinians as being expressed in association with Jordan.

This reflects Israel's determination to prevent the eventual formation of an independent Palestinian state. Israel has said it is willing to consider setting up sub-committees for particular issues.

In response, the Palestinians have accused Israel of again trying to re-interpret previous agreements and of refusing to acknowledge the separate existence of a Palestinian people.

Li Peng visit angers Tibetans

VIOLENT clashes between Tibetan demonstrators and Indian police marked the arrival in Delhi yesterday of Li Peng, the first Chinese prime minister to visit India in 31 years, David Housego writes from New Delhi.

Li Peng drove through deserted streets from the airport after police banned pedestrians from his route to avoid politically embarrassing demonstrations. The security precautions were unprecedented for a foreign visitor to Delhi.

Earlier Tibetan demonstrators were charged by police and had tear gas thrown at them in three places in northern Delhi. Police said that 120 Tibetans were arrested - though many more had also been taken into custody in previous days.

Burmese clamp down

Burma's ruling military junta yesterday shut down all of the nation's universities after two days of campus demonstrations in Rangoon demanding freedom for Nobel Peace Prize winner Aung San Suu Kyi, Radio Rangoon announced, Reuters reports from Bangkok.

Earlier, troops with fixed bayonets threw up barbed wire barricades around Rangoon University and began arresting students and emptying the campus after a second day of pro-democracy protests, Rangoon residents said.

Kenyan front

Kenyan opposition leaders said yesterday they had formed a united front against President Daniel arap Moi, who last week gave in to months of pressure to end one-party rule, Reuter reports from Nairobi.

Salvador talks

Salvador peace talks closed in Mexico on Tuesday night with the right-wing government and rebel opponents failing to resolve their key differences, but still holding out hope that an accord can be reached by the end of the year, writes Damian Fraser in Mexico City.

Mexican church

Mexico's government has abandoned part of the country's revolutionary past, by introducing legislation that would legally recognise churches, give them the right to own property, and allow the clergy to vote, Damian Fraser writes.

Paraguayan assets may be seized

By Stephen Fidler, Latin America Editor

A FRENCH bank has secured a provisional court order in New York to seize more than $20m of the Paraguayan government's assets because of non-payment of its foreign debts.

Any move to seize assets of a sovereign debtor has been highly unusual during the nine years of the third world debt crisis. It last happened when Citibank, the big US bank, seized Ecuadorean assets in 1989 over non-payment of debt.

The new development is probably the first time that a bank which obtained the loans in the secondary market at a discount to face value, and was not an original lender, has tried to seize a debtor country's assets.

Before the order can be confirmed, the Paraguayan government and central bank will be able to argue in a hearing, due at the end of next week in the southern district court in New York, that the bank is not entitled to seize the assets. These are in an account at Swiss Bank Corporation.

The bank, Banque de Gestion Privée, and others have alleged that Paraguay is not treating its creditors fairly, since they claim it is using its foreign exchange reserves to buy back debt at a discount, rather than repaying loans when they come due.

News of the the move comes as a delegation of the International Monetary Fund is visiting Paraguay to, among other purposes, help clear the arrears Paraguay has built up with the banks. Paraguay is not a large debtor – the World Bank reports some $270m of loans were owed to banks at the end of 1989, out of a total debt of $2.5bn – and it has never formally rescheduled its debts.

Trade Bank Group

Mr Alnoor Kassam, chairman of the Trade Bank Group, Nairobi, wishes to make clear that the Kassam family are majority shareholders in the company. He also states that Mr Nicholas Biwott, a Kenyan former minister, and Mr Gad Zeevi, an Israeli businessman, have not held shares, directly or indirectly, in Trade Bank Ltd, Trade Finance, a fully-owned subsidiary, or Prudential Assurance Kenya Ltd, since August 1989.

EC ambassador finds Moscow's cupboards bare

By John Lloyd in Moscow

THE European Community's ambassador to Moscow yesterday said that stories of full larders compensating for the emptiness of Soviet shops were unlikely to be true.

Mr Michael Emerson said that "the population do not have much food in their flats – a few packets of macaroni, that's all.

"The reports which say that there is a lot of food around, it's just not in the shops – that's not what we think".

He said that the supply of bread to the capital – hit especially hard by shortages this year – was "not too bad", but that supplies of meat and dairy products were very poor.

The EC, which runs what Mr Emerson described as "by far the largest programme of aid of any foreign state", is now delivering Ecus250m (£178.5m) in food aid.

To avoid the inefficiencies and corruption of Soviet distribution, the aid is packaged in individual 1kg bags and delivered to the hands of the receivers by western humanitarian organisations.

The programme, which Mr Emerson said was providing vital extra nourishment to mothers, children and pensioners, runs out at the end of the year.

However, the Community has offered a further Ecus500m of food aid next year.

The EC ambassador said that, for the immediate future, the Community was working through the established institutions of Soviet authority – in spite of declarations by senior Russian ministers that the union no longer exists.

Grim news: Pravda journalists at a meeting yesterday to discuss the prospect that the newspaper may be closed by Boris Yeltsin's Russian government on January 1. The paper's 350 staff may lose their jobs

Mr Ivan Silayev, the chairman of the Inter-republican Economic Committee, is due to sign today a document which would release Ecus400m for technical assistance programmes.

Further credit packages of Ecus500m and Ecus1250m are under way, with deliveries of the foods bought under them expected in the first quarter.

Mr Emerson said that the credits were guaranteed by Vnesheconombank – the main bank for foreign economic affairs – and further underpinned by an agreement with the republics to hold themselves jointly and severally responsible for the debt.

Mr Thomas Alibegov, deputy chairman of Vnesheconombank, yesterday told the committee for the management of the national economy that the bank had exhausted its hard currency reserves.

He said foreign holders of accounts with the bank were withdrawing them rapidly – $70m yesterday alone.

Republic appeals for western debt relief as fighting makes budget deficit soar to $2.5bn

Croatia will increase taxes to pay for war

By Judy Dempsey in Zagreb

THE government of Croatia will impose steep increases in company and personal taxation next month to finance a war which has already cost the equivalent of an estimated $70bn (£38.8bn).

Mr Jurica Pavelic, deputy prime minister responsible for the economy, said enterprises will have to bear the main burden of financing the 550,000 refugees, 667,000 pensioners and the 270,000 unemployed from a labour force of 1.2m. A further 100,000 people cannot work because of the fighting.

Enterprises would have to pay 1.5 dinars to the government for every one dinar they paid in wages to their workers, Mr Pavelic said. Taxes on personal consumption and luxury goods will also be increased.

The tax measures will be accompanied by the issue of government-backed five-year treasury bonds worth DM1bn (£350m), which will be offered to Croats living abroad. "We need a minimum of $1bn to start repairing the economy," he added.

Mr Pavelic said Croatia is now running a budget deficit of $2.5bn and seeking debt relief on $580m which falls due to western financial institutions in the new year.

He said he feared the costs of the war and any post-war reconstruction will soar over the next year. At the moment, government expenditure is targeted on maintaining the army, whose finances Mr Pavelic did not disclose, and refugees, who cost the authorities DM10 a day each for shelter, food, and clothing.

The government has said 2,000 Croats have died in the fighting since Croatia declared its independence on June 25. Red Cross officials say total fatality figures, which include Serbs and federal army soldiers, could exceed 20,000.

Around 30 per cent of Croatia's territory is now under federal army or Serbian control and the war has caused enormous material damage.

Several bridges have been destroyed, more than 120,000 apartments bombed and nearly 40 per cent of the republic's crops, or 480,000 hectares, located mostly in Slavonia, eastern Croatia, where much of the fighting has taken place, could not be harvested this year.

Mr Pavelic, who took over the economy portfolio a month ago, said the Yugoslav economy was already going through an economic crisis before the war. Because of the war, however, industrial production has fallen by 40 per cent so far this year after a 10 per cent decline in 1990. He said that GDP will fall 30 per cent this year after a 12 per cent decline in 1990.

Personal income, which has fallen by 50 per cent since last December, is likely to decline further.

Indian Hindus' 'march for unity' sparks fears of fresh ethnic clashes

By David Housego in New Delhi

HINDU militants yesterday launched a 14,000 km march across India that both the government and most political parties fear could trigger off fresh Hindu-Moslem riots.

Dr Murli Manohar Joshi, the president of the Hindu Bharatiya Janata Party (BJP), set out from Kanyakumari, the southernmost tip of India, at the head of a large following on a highly publicised journey that will reach its climax with the raising of the national flag in Srinagar, the capital of Kashmir, on January 11.

Many believe that militants from the Moslem separatist movements in Kashmir will prevent his entry to Srinagar or that the government could be forced to arrest him well before then to avoid violence.

Dr Joshi calls his journey an ekta yatra – a march for unity. He says that its aim is to champion national unity against the "biggest threat" now facing the country – "terrorism and secession".

Prime Minister Narasimha Rao's Congress administration believes that the march will inflame tensions between Hindus and Moslems and make the handling of separatist movements in Kashmir, Punjab and Assam more difficult.

Dr Joshi, one of the hard line leaders within the BJP, set out yesterday on a truck decorated as a Kashmiri house boat. His journey will take him through many of the states where there have been communal and ethnic clashes including Andhra Pradesh, Madhya Pradesh, Punjab, Uttar Pradesh and Kashmir – where he will arrive in the capital on Republic Day.

When the BJP's parliamentary party leader, Mr L. K. Advani, launched a similar campaign last year to support the building of a Hindu temple in Ayodhya, it provoked widespread violence between Hindus and Moslems. There have been almost 400 reported communal riots since then.

Mr Rao called a special all-party meeting on Tuesday in an effort to get the BJP to call off the march.

The BJP, already the dominant party in north India, sees the march as a central element in its campaign to challenge the Congress as the major national party. By equating national unity with Hindu culture, it is exploiting the anti-Moslem sentiments of many Hindus and their fears of the country disintegrating under pressure from separatists.

The BJP also hopes the march will exacerbate splits within Congress, which is divided over how to respond to the BJP's Hindu nationalism and how to handle the issues of Kashmir and the Punjab.

The danger for the BJP is that its aggressive campaign could alienate middle-of-the-road opinion that is frightened by the BJP's excesses. Dr Joshi, for instance, implicitly condones the ruthlessness of the security forces in Kashmir which has led to numerous charges of human rights abuses against them.

"My weapons are defined by the weapons of my enemies", he says, justifying the methods of the security forces by the violence they face.

Throughout the march, the BJP will be pressing for the removal of the constitutional article that gives Kashmir special status. "India is a one and indivisible whole. No part of the territory can be permitted to secede", says Dr Joshi.

He adds that once the government's authority has been enforced in Kashmir, then separatist militancy will "evaporate".

EC, US leaders push for end to farm row

By William Dullforce in Geneva

The good life

Little luxuries you can no longer afford

Barbara Durr reports on a shift in attitude among American consumers who are demanding better value for their money

Welcome to America in the 1990s, where cheap is chic. Recipes for meatloaf are in vogue. Keeping the old car is in. Flaunting it, even if you still have it, is out.

The change in consumer attitudes spells trouble for marketing luxury goods. The US recession is wearing on and taking its toll on the luxury market – from BMWs to premium chocolates.

But the shift in attitudes goes deeper, according to those who make a living from watching market trends.

Peter Stisser of Yankelovich Clancy Shulman, the market research firm, says that consumers no longer hanker after the social badge that luxury confers.

"They are not depriving themselves. They just don't want it," he explains.

Now, says Peter Kim, chief of strategic planning at the J Walter Thompson advertising firm, "people are looking for much greater value in what they buy, whether it's a $30,000 car or at the supermarket".

Value has become the new watch word in the luxury market, and nowhere is this truer than in car sales, where high priced European cars have taken a beating from new Japanese competitors.

The market share of luxury models from Japan almost exactly displaced that of the Europeans between 1986 and September this year.

Mercedes, BMW and Audi are fighting back with marketing campaigns emphasising engineering excellence and safety rather than status. But market analysts say the struggle is uphill because the Japanese have succeeded in redefining luxury cars as those that have superb performance, looks and feel without a giddy price.

Jerry Reitman, executive vice president of Leo Burnett, the big Chicago-based advertising firm, suggests that companies take note of the new emphasis being put on value. And he recommends that producers of luxury goods concentrate on quality rather than move downmarket.

Consistency in quality and message is how Godiva chocolates has chosen to deal with the current luxury slump. "Godiva has always been on a pedestal and we don't want to bring it down because of tough times," says Godiva Worldwide president David Albright.

The company has not altered its basic marketing campaign, which emphasises its role as an exceptional treat. It has however increased its spending on advertising as a percentage of sales and sought new customers through catalogue sales, especially to corporations.

While the chocolates do not suffer from the same price barrier as more expensive luxury items, the company says it has accommodated the consumer's new demand for value with smaller boxes.

One company that took the opposite approach and moved its product down market is now paying the price. Cross pens, once sold as jewellery that writes, now has formidable competition from a new line called Insignia launched this year by the Parker Pen company.

While considered middle market at $15 (£8.30) to $100, compared with its more expensive fountain pens which cost more than $100, Parker's Insignia is hitting the practicality theme with a marketing campaign that touts the pens as "engineered for the business professional".

Kim at J Walter Thompson also suggests that repositioning goods in the market can help. While some less established names could fail, he has faith that "classic" brands will ride out the storm.

Rolex, for example, says that while its overall sales in the US are about the same as last year, there has been a shift away from fancier, diamond studded watches to more practical – and cheaper – stainless steel models.

Fashion designers, such as Donna Karan and Calvin Klein, have also acknowledged the market's shift and begun second and third lines that are less expensive.

Yet, there is also a move toward originality and personal touch. Leo Shapiro, of the market research firm Leo Shapiro and Associates, notes that it has become much more chic to find a young, perhaps unknown, designer to make a $400 dress than to buy one at a top notch store.

Henri Bendel, the classy women's clothing store, has tried to counter the trend by inviting in new young designers.

Other retailers are concentrating on their best customers using fresh marketing approaches.

Hartmarx, which sells executive clothing, sent 150,000 of its highest spending customers a 12-minute video Christmas catalogue – the first of its kind – complete with contest prizes.

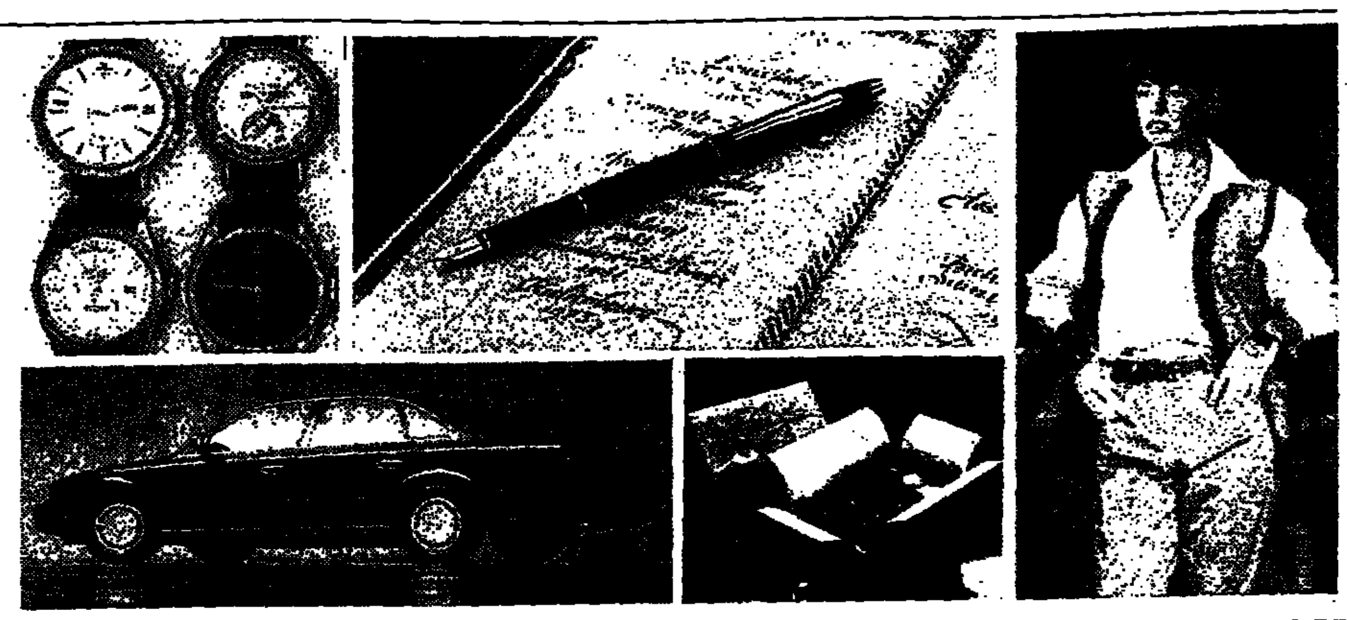
Even exotic travel is being repackaged with fewer frills. American Express's travel services division has polled its agents and found that customers are seeking value for their dollar.

While there has been a tendency to postpone holidays, those that take them hunt for bargains.

The company has responded by trying to provide information quickly on discount fares and packages.

While consumers will still spend large sums for quality products, they are expected to be buying fewer.

And says Stisser of Yankelovich Clancy Shulman, "we don't expect that the 'spending for the best' mode that existed in the 1980s will return".



LUXURY car dealers have taken to competing on service. Now they must make the customers "feel special". At Motor Werks of Barrington, a luxury car dealership in a posh Chicago suburb, shoppers do not have to tramp through long parking lots to see new cars. Instead nine lines of cars – including Mercedes-Benz, Porsche, BMW, Saab, Cadillac, Honda and Infiniti – are on display in a plush indoor mall.

New models are unveiled with champagne and canape receptions. Buyers are offered free car washes for the life of the car. And, customers on Saturday are served a free lunch.

The showrooms are decorated with art work rather than car posters. Free apples as well as coffee, cocoa and tea are always available. A nicely appointed customer lounge – with a well-equipped children's corner – overlooks the clinically clean service area where the progress on your car can be observed. And, you are free to speak directly to the mechanic working on your vehicle. For convenience, the service department works until midnight.

Sales personnel are instructed not to adopt a hard-sell approach. Limosines pick up and drop customers at their doorsteps or at the railway station if they are going to or from work.

According to Motor Werks chief financial officer, Martin Mindling, customer service has meant that the dealership's sales will only be down slightly – to about 3,000 cars – from last year, compared with much bigger drops at other dealers.

Why no one is safe any more

More than ever before, uncertainty about the future has dimmed expectations of the good life in the upper brackets. It is not just blue collar workers who are worried about job security and income: white collar employees and executives are anxious too.

Over the last five years, some 52,000 jobs have been cut from the US securities industry alone.

"No one is safe any more," said Sheila Lyons, a recently sacked marketing executive. While many may keep their jobs, they are nonetheless seeing their pay packets decrease now that executive pay in the US has become more tied to bonuses and other kinds of performance incentives.

According to Vincent Perro of Sibson & Co, a New York headhunter, the portion of incentive pay has risen from 40 per cent in 1978 to 60 per cent in 1988. With business now hit by the recession, discretionary income has diminished.

The problem is not simply the recession. The maturing of the US baby-boomers – the 76m people born between 1946 and 1964 – is perhaps the most important reason for the shift in attitudes.

As more of the baby-boomers reach middle age, their concerns are turning to family and their consumption pattern is less dictated by immediate gratification. More of their income is spent on their children's education.

Consumers are also trying to whittle down a debt hangover from the 1980s. Laurel Cutler of the marketing consultancy Foote, Cone & Belding says: "We are like reformed drunks. There is almost a revulsion about going too far now."

Thrown into the mix is a new 10 per cent tax on purchases of luxury items like high-priced cars, furs, boats, aircraft and jewellery.

Yet, while all this is discouraging consumption of premium priced goods, the luxury market itself is hardly dead. "This is the death of glitz, not of luxury," says Cutler.

Special offers appear on the menu

Hilary de Boerr looks at incentives used by British restaurateurs to their keep their customers happy

Britain's restaurants are resorting to gastronomic gimmickry to entice customers back into their dining-rooms.

Free bottles of wine, theme weeks, fixed price menus and half-price special offers are being offered to counter recessionary belt-tightening. Even American Express launched a money-back promotion.

"Value for money" is the current catch-phrase of restaurateurs – which presumably means good food, good service and competitive pricing. But some restaurants are going one step further – fostering customer allegiance through newsletters delivered to your door.

The aggressive marketing approach, adopted from the US, usually starts with a prize draw. Restaurant customers enter their business cards for a chance at winning a free meal or magnum of champagne. The marketing exercise gives restaurants a profile of their customer base, and direct access to them.

The London chain of Cafe Flo restaurants has collected 10,000 cards from diners, who now have stuffed through their letter boxes a quarterly journal outlining cut-price promotional offers, special menus, and other news on the chain's activities.

Russel Joffe, owner, says it costs more than £15,000 a year to print and post the journal. "We don't believe in advertising in magazines because we don't know who they go to. Direct mail to your customer is the best form of advertising," he says. Only one customer has complained, preferring not to receive "junk mail". Many more may have suffered in silence.

Alex Allen, the Canadian owner of Betjeman's, an award-winning London wine bar, spends more than £6,000 annually on his glossy newsletter, which appears three times a year. "It keeps us in the front of people's minds," he says.

However, it is telling that most customers choose not to leave their cards, according to restaurateurs; for example, Smollensky's Restaurant takes in 200 to 300 cards a month at its two London restaurants, while serving 6,000 to 8,000 customers a week. The cards they do receive therefore tend to represent a willing audience. Smollensky's' American owner, Michael Gottlieb, sends out personal invitations to special events to encourage people to eat out during during traditionally slow periods.

Such is the recession in the restaurant business – more than one in four restaurants is said to fail after 18 months – that American Express has been offering £25 credit vouchers for every three meals over £25 charged to its card.

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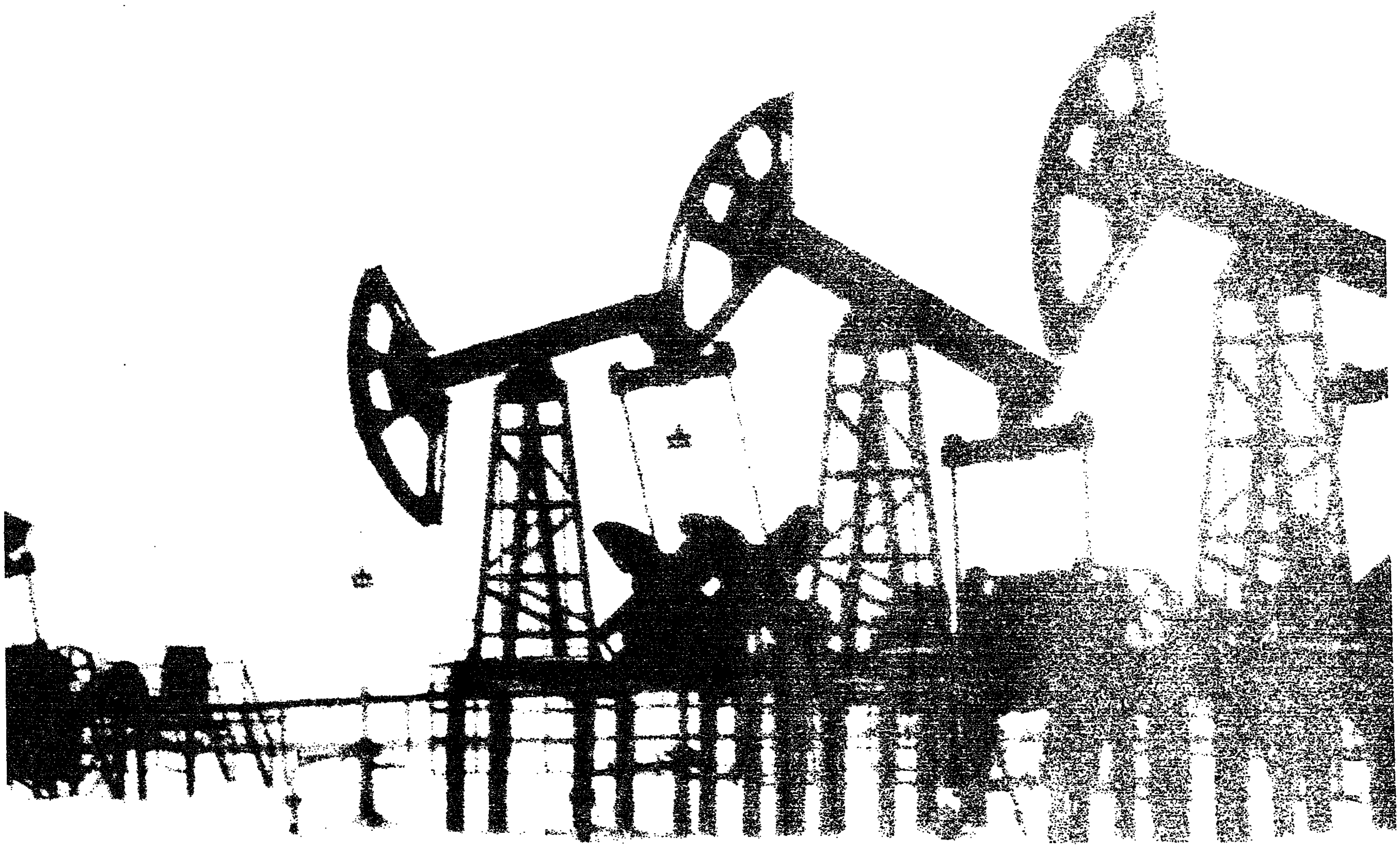

UK NEWS

CBI attacks plans for EC carbon tax

By David Lascelles, Resources Editor

BRITAIN'S employers' organisation, the Confederation of British Industry (CBI), has warned the UK government not to agree to any EC carbon or energy tax proposals which might undermine European competitiveness on world markets.

In a confidential note to ministers ahead of this week's meeting in Brussels of EC energy and environment ministers, the CBI warns current proposals would result in EC-produced goods being substituted by imports not covered by the proposed tax.

The CBI also says that the EC has not supplied enough data to support its reasons for wanting a carbon tax, and the practical details are too vague to allow proper assessment.

The organisation is worried that the proposed tax would add further distortions to the energy market. It also notes: "As the UK is the largest producer of energy within the EC – with major reserves of coal, oil and gas – the potential impact of the tax will therefore be more severe and this should be taken into account in framing proposals."

In September, the EC proposed a tax on fuels based on their carbon content to reduce harmful emissions.

Accounting body plans radical overhaul

By Andrew Jack

THE so-called extraordinary item in British company accounts is to die by next summer, under proposals for a radical overhaul of financial reporting issued yesterday by the Accounting Standards Board (ASB), the accountancy standards regulation body.

A series of standards contained in the ASB proposals will fundamentally change the shape of the profit and loss account, create a fourth primary financial statement, and redefine the status of capital instruments on the balance sheet.

Extraordinary items, which record losses or profits outside the normal trading activities of a company, will be all but abolished. Any that remain will be included in the calculation of earnings per share, the key measurement of corporate performance.

Companies will have to provide greater information on their investment spending and break down profit figures between continuing and discontinued operations, and acquisitions.

Most capital instruments – devices to raise money with an obligation by the issuer to repay, which are currently defined as assets – should be reclassified as liabilities.

A new statement of "total recognised gains and losses", which will show changes in net assets during the year, will complement the existing profit and loss account, balance sheet, and the cash flow statement introduced earlier this year.

Mr David Tweedie, chairman of the Accounting Standards Board (ASB), which took on the job of drafting accounting standards last year, said: "This is our winter offensive. We are tearing up the profit and loss account and making our first strike against the balance sheet."

He said a draft Financial Reporting Standard, the successor to the Statements of Standard Accounting Practice, on the profit and loss account could be launched by next August.

The discussion paper on capital instruments is the first proposal by the ASB on this subject. An exposure draft could be ready by next summer and a new standard by early 1993.

The proposals for changes in the profit and loss account were mooted in a discussion draft in April and are likely to closely resemble the new standard.

Large companies will be required to disclose "revenue investment", or expenditure which affects future performance, by disclosing spending on research and development, training, and major maintenance and refurbishment.

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Tweedie: on the offensive

Deficit likely to be in line with Treasury forecast

By Peter Marsh, Economics Staff

HIGHER earnings from services and financial payments cut Britain's current account deficit in the first nine months of 1991 to £4.1bn, £1bn less than previously thought, according to government figures published yesterday.

The revision was due to new estimates for the amount of money earned in the second and third quarters on invisible trade: services, interest, profits, dividends and other transfers.

The changed numbers announced by the Central Statistical Office (CSO) increase the probability that the current account deficit for the full year will be in line with the Treasury's forecast made last month of £6.5bn.

In the first nine months the UK had a deficit on its visible trade of £7.4bn, offset by a £3.3bn surplus on invisibles. According to last month's Treasury projection, the visible deficit for the year will be £9.5bn, with a compensatory surplus on invisibles of £3bn.

The new estimates revised up by £639m the previous CSO estimate for second quarter invisible surplus, putting this at £2bn, rather than £1.3bn. With a surplus of £1bn pencilled in for the invisibles surplus in the third quarter, replacing the previous projection of £800m, the current account shortfall for the first nine months is £1bn smaller than had been assumed.

In the second quarter, Britain had a surplus on its trade in services, which includes areas such as shipping, travel and finance of £1.7bn, rather than the £1.5bn previously estimated. Net overseas earnings on interest, profits and dividends totalled £90m, replacing an earlier estimated deficit of £257m.

With the revised numbers, the deficit on the current account in the second quarter works out at £127m, the lowest quarterly deficit since early 1987. The deficit widened in the third quarter to £1.3bn, although it was significantly smaller than the £2.7bn deficit in the first three months.

The main factor behind the rising current account deficit between the second and third quarters was sharply reduced payments from other countries towards Britain's Gulf war costs.

The CSO said direct investments in Britain by overseas businesses and individuals totalled £1.7bn in the July-September period, the smallest quarterly figure since mid-1988.

Bus deregulation in London should 'be abandoned'

By Richard Tomkins, Transport Correspondent

DEREGULATION has plunged bus services outside London into a spiral of decline, Britain's metropolitan councils claimed yesterday.

The Association of Metropolitan Authorities called for a fundamental review of bus deregulation and urged the government to drop its plans to extend it to London in the next Parliament.

In a report on the bus industry in Britain's metropolitan areas, the association says six out of seven key indicators show that services outside London have declined over the past year. Fares have continued to rise, passenger numbers have continued their sharp decline, and the number of passengers carried for every mile operated has gone down.

In addition, for the first time since deregulation in 1986, the total mileage operated has gone down, costs per passenger carried have increased, and the level of subsidy going into the bus industry has risen.

The report says that in London, where deregulation has yet to be introduced, bus use has increased by 25 per cent over the last five years. Fares have risen half as fast as elsewhere and operating costs have fallen twice as fast.

The association says it is working on proposals for legislation to reverse some of the effects of deregulation – for example, by enabling bus services, fares and timetables to be co-ordinated locally and allowing bus services to be integrated with rail services.

"The new package will eradicate inefficient competition on the street but will retain and build on the commercial expertise of the country's bus operators," the association says.

Buses: The Case For Urgent Action. Association of Metropolitan Authorities, 35 Great Smith Street, London SW1P 3BJ. Free


Log jam: the Association of Metropolitan Authorities wants to prevent deregulation of London Transport buses

Watchdog 'concerned' at asylum reform proposals

By Robert Rice, Legal Correspondent

THE Council on Tribunals, the independent tribunals watchdog, yesterday expressed "grave concern" about the government's proposals for reform of the asylum laws.

In its annual report for 1990-91, the council draws attention to the absence of proper appeals procedures for asylum seekers and attacks the proposal to withdraw free legal advice and assistance under the legal aid scheme for asylum seekers.

"Where an individual's right to liberty may be at stake, the freedom to choose by whom the advice shall be given and in particular to choose a lawyer expert in this area of the law, is just as important as the considerations of effectiveness and economy put forward by the government to justify the change", it says.

The council says the asylum bill which aims to speed up processing of asylum applications – running at 1,000 a week – justifies its fears. The watchdog claims appeal rights for asylum seekers already in the country will be adversely affected by a new appeals regime which effectively withdraws their existing right to appeal, and time limits on appeals may put the fairness of decisions at risk.

MOTOR INDUSTRY

Recession forces Iveco Ford to cut jobs

By Kevin Done, Motor Industry Correspondent

IVECO Ford Truck, the UK truck maker, is to cut a further 147 jobs in the face of the continuing deep recession in the UK truck market.

The company, which had 1,796 employees at the beginning of the year (including Iveco UK), will have cut its workforce by a total of 30 per cent to 1,250, when the latest round of redundancies is completed.

The company said yesterday that it was seeking 100 voluntary redundancies from the hourly paid workforce at its Langley truck assembly plant west of London by the end of January. In addition 47 salaried staff are to be cut during 1992.

Truck production at the Langley plant has fallen this year by 32.7 per cent to 5,826, the lowest point for more than ten years. Output has fallen by 60 per cent in the last two years from 14,526 in 1989. Production currently totals 36-40 a day compared with 80 a day in 1989.

The Langley plant was on short-time working for most of the first eight months of the year but is currently operating a five-day week with the smaller workforce.

At the beginning of November Iveco Ford implemented a six-month pay freeze, delaying the start of pay negotiations with its hourly-paid workforce until May 1, in a further move to cut costs in the face of the steep decline in commercial vehicle sales during the recession.

The truck sector has suffered its sharpest drop into recession in the post-war period, and overall truck sales are likely to fall this year to around 32,000, the lowest level since 1954.

In the first 11 months overall UK new truck sales plunged by 34.7 per cent to 30,147, while the Iveco group's sales have fallen by 40.6 per cent to 7,054, depressing its market share to 23.4 per cent from 25.7 per cent a year ago.

● Manual workers at Ford New Holland tractor and parts plants in Essex are to vote on industrial action after rejection of a three-year, inflation-linked pay deal.

The 1,600 employees have been offered 4 per cent from the settlement date of November 24, and increases linked to the retail prices index in the second and third years of the proposed deal.

The company, 20 per cent of which is owned by Ford and 80 per cent by Fiat, said the offer was final.


EC-bound: John Gummer (above) is one of many ministers to pay frequent visits to the European Community

Roving ministers head for Europe

British officials are queuing up to visit the EC, writes Ralph Atkins

NO MATTER what the shape of Europe after Maastricht, British ministers and government officials with less glamorous roles in running the country are already heavily immersed in the work of the European Community.

For some ministers – particularly Mr John Gummer at Agriculture and his colleagues at the Department of Trade and Industry – meetings of EC ministers are becoming as familiar as the green leather benches of the House of Commons.

Trips on EC business by ministers are averaging about one a month. But that hides wide variations. The five DTI ministers have made nine trips to other EC countries between them in the last month – and will make at least half a dozen more before Christmas.

"Ministers are having to acquire a wider range of skills – including coalition and consensus building which are more prevalent in continental Europe," according to Mr Nigel Forman, a Tory MP.

Visits each year by officials – by themselves for low-profile meetings or accompanying ministers – are running into the thousands for some departments. Part of the cost is repaid by the European Commission.

Civil servants at Mr Gummer's Agriculture Department notched up 2,306 visits to other EC countries in the year to April. In the first six months of this financial year the total was already 1,382. The DTI had no figures available but said officials were travelling "daily" on EC business.

Other departments with a heavy European workload include employment, where Mr Michael Howard, employment secretary, has fought fiercely against the European social charter, and in the past month officials have spent 122 nights away on EC business.

At Environment, officials have spent 77 nights away. Officials at the Home Office, where European involvement centres on immigration policy, have been away for 76.

The Scottish and Northern Ireland Offices, and to a lesser extent the Welsh Office, travel for meetings on regional development and are represented at other meetings – sometimes doubling the number of UK officials in attendance.

Even departments without obvious links to the EC are making a surprising number of trips. Social security officials have spent 58 nights away on EC-related business in the past month; at the Education Department the total was 23.

An increasing Euro-workload shapes not only the timetable of ministers but the nature of the job. "Our system is that you define the differences and you decide which option you are going to take," Mr David Curry, agriculture minister, says.

"The whole art of Brussels is to find a way around things . . . At the end of the day you may have to vote but the ideal is to try and take your vote with everyone able to come aboard."

His workload in Brussels is daunting. An agriculture council this week and a fisheries council next week, each lasting two days, are set to dominate the run-up to Christmas. Behind the scenes there will be bilaterals, informal contact-building and much paperwork.

Yet he denies that his responsibilities have been downgraded: "It is being sort of footloose but not fancy-free." He is more accountable to MPs than many counterparts in other countries, he believes.

Mr John Redwood, corporate affairs minister, has seen a similar increase in his workload. He spends at least two days at week on EC business but says parliament has to be as important as ever. "It just means that you work longer hours to keep up with the workload."

Before Christmas, he faces what are set to be protracted and detailed meetings on investment services and high-definition television.

Mr Redwood has been surprised at the extent to which agreement can be reached by consensus building, for instance on the single market.

In stark contrast to the DTI and Agriculture Departments is the Ministry of Defence.

Its answer to Mr Forman's questions betrayed the government's deeply felt suspicions about a common defence force usurping Nato: "Neither ministers nor officials in this department have made visits to Brussels or any other locations on European Community business in the last month."

Yet perhaps one day, if Britain were to become actively involved in a European defence policy, there may yet be MoD officials queueing at the airport check-in too.

BRITAIN IN BRIEF

Virgin will fight Tokyo routes ruling

Virgin Atlantic Airways, the UK long haul aircraft operator, is to appeal against a decision not to give it more flights from London to Tokyo. The Civil Aviation Authority had ruled that Virgin Atlantic should not be given extra slots, currently used by British Airways, to operate a daily service on the London-Tokyo route. Virgin operates six round trips a week.

Virgin has 21 days to lodge an appeal with the Department of Transport. British Airways accused Virgin of trying to "transfer revenue and profits from British Airways to itself." Mr Richard Branson, Virgin's chairman, pictured below, argued that "to compete fairly we must be able to offer our customers a daily service."

Plans for BP building

BP, the oil company, is seeking planning permission to refurbish Britannic Tower, its former headquarters in the City of London. The building, which dates from 1967, is unable to cope adequately with new technology. The company plans to modernise the Moorgate offices, introduce new lifts and reclad the exterior to brighten its appearance.

Directors win rise in pay

Personnel directors won pay increases averaging 12.4 per cent in the year to September, a period when they were instrumental in keeping average earnings rises for the people they employ to less than 8 per cent. A survey commissioned by the Institute of Personnel Management also found that personnel directors and those who work in their departments expect rises averaging about 6.5 per cent in the year ahead. Personnel workers of all levels won rises averaging 9.4 per cent in the 12 months to September.

New opencast mines proposed

British Coal Opencast, which wants to maintain its output from Northumberland, north-east England, at 2.5m-3m tonnes a year, has proposed five new sites and nine new areas for prospecting. It works nine sites in the county and eight private operators are working sites or have expressed interest. Northumberland county council acknowledges that opencasting has provided jobs, British Coal Opencast's activities employ 875, at a time when deep mining is declining.

FT journalists are balloted

Journalists at the Financial Times began balloting on industrial action following management proposals to consider retiring nine employees compulsorily on health grounds. The result of the ballot is expected on Tuesday. The nine are long-term sufferers from repetitive strain injury (RSI) – the term commonly used to cover a group of shoulder, arm and hand complaints which are increasingly being associated with work on computer keyboards.

The newspaper's management said it proposed to pay the nine – who range in age from 26-55 – ill-health retirement pensions at the same level as if they had worked until the normal retirement age of 62. Those not covered by the company's pension scheme would be covered by insurance, providing similar benefits, said management. The National Union of Journalists, which represents the journalists, said it wanted the scheme to be voluntary, rather than compulsory.

Wider water competition

Plans for increasing competition between regional water companies by clearing the way for them to take business from outside their areas are expected to be unveiled by ministers today. Legislative powers making it easier for the ten privatised water companies to trade in other companies regions are expected to be moved in the form of amendments to the Competition and Service Bill, currently at its committee stage in the Commons.

Surveyors see improvement

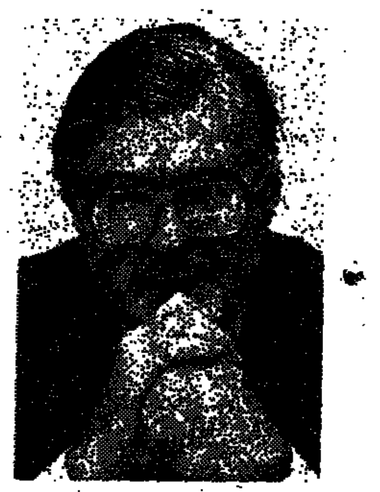
The commercial property market may be at a turning point, according to Hillier Parker, chartered surveyors. The market, which has been through its worst downturn since the war, is improving in the retail and industrial sectors, although the office sector is continuing to decline. Overall, the surveyors expect the three months to the beginning of February to show no further decline in average values.

Nirex unveils plan for waste

New plans for a radioactive waste dump half a mile underground at Sellafield in Cumbria have been unveiled. UK Nirex, the nuclear industry's radioactive waste executive, wants to build the "repository" for intermediate and low level waste next to the British Nuclear Fuels reprocessing plant. Nirex published preliminary plans when it selected Sellafield as its preferred location last July.

Single-union deals agreed

The EETPU electricians' union has signed single-union deals with two inward investment companies based in South Yorkshire. It is likely that agreements with both companies will contain provisions which will be widely viewed as no-strike agreements. The two companies are Kostal UK, a subsidiary of German car components manufacturer Leopold Kostal, and Koyo Bearings (Europe), a subsidiary of Koyo Seiko of Japan.



Call to beat car crime

Mr Kenneth Baker, the home secretary, pictured above, has challenged motor manufacturers to fit all new cars with antitheft immobilisers by the end of next year. Immobilisers, to prevent a would-be thief driving away, are standard or available at point of sale on 60 per cent of UK produced models and 42 per cent of imports. Association of British Insurers figures show that the overall cost of motor theft claims to insurance companies was £305m in the first half of the year, compared with £432m for 1990.

British Gas to lift prices

British Gas is raising prices for many of its larger customers with long-term contracts. From next month, customers who buy their gas on an interruptable basis will pay 1p a therm more. Customers who buy gas on a firm contract basis will pay an average of five per cent more.

Rivers' agency attacks plans

The National Rivers Authority has attacked government proposals to transfer some of its functions to a new national environment agency. It said any division would do "very serious damage" to the effectiveness of its work.

Manx re-elects chief minister

The Isle of Man's chief minister has been elected for a further five years by members of Tynwald, the full Manx parliament. Mr Miles Walker, 51, has been a member of the Manx parliament since 1976. The Isle of Man is a self-governing Crown dependency.

CINEMA

Little gems amidst the artistic wreckage

LONDON KILLS ME
Hanif Kureishi

THE ADDAMS FAMILY
Barry Sonnenfeld

AN AMERICAN TAIL: FIEVEL GOES WEST
Phil Nibbelink and Simon Wells

NEW YEAR'S DAY
Henry Jaglom

A good film glimmers through the artistic wreckage in *London Kills Me*, the directing debut of *My Beautiful Laundrette* writer Hanif Kureishi. In the watery depths of cine-consciousness, as we are wafted past the vista of broken timbers and barnacle-encrusted clichés, a jewel or a gold ingot just occasionally shines out.

One is Steven Mackintosh's performance as drug-dealing gang leader Muffdiver, a seedy Adonis who might have been designed by Botticelli from information given him about the Artful Dodger. Another is the hint of classic farce when Mr G, a big-time London gangster, gets waylaid by the ground floor's Indian guru (Roshan Seth) and his prancing disciples, while Muffdiver and his mates upstairs mistake for Mr G the daft German tourist using one of their pads as a hotel bedroom: a cash-earning scam engineered by the film's hero "Clint Eastwood" (sic), played by a bemused-looking Justin Chadwick.

Are you following this? Probably not. You have to be there. Or then again, unless you are a professional film critic, you do not. *London Kills Me* is an amazing, hypnotising, mind-bending shambles. A street tragicomedy set in and around Portobello Road, it staggers from one dazed vignette of subcultural London to the next, as if like its hero it was seeking a good pair of shoes and somewhere worth going in them.

Clint, you see, requires a sound set of brogues before brasserie owner Brad Dourif will agree to hire him as a waiter, thereby giving him (Clint) the respectable life he longs for. That is the plot. Clint is a thin, scuzzy fellow with long black hair and a tense, un-winning smile. He is, you might say, one of life's losers. His mate Muffdiver steals his girlfriend Sophie (Emer McCourt) and Muffdiver's mates steal his self-respect: requiring him to beg, thieve and con his way through neo-Dickensian London. (Subject for thesis: The enduring influence of *Oliver Twist* even on film-makers who may never have read it).

All else around these frail plot essentials is feral embellishment. Photographed like a home video that has been savaged by the cat – even the gang's late-on country outing is a grungy-green eyesore – the film is earnestly ugly and passionately shapeless. Unlike *My Beautiful Laundrette* or Kureishi's London novel *The Buddha of Suburbia*, it never finds a connective spell to harmonise its multiple characters and incidents. Actors like Alun Armstrong, Fiona Shaw and Mr Dourif pop up in amputated cameos, while surreal moments (an angel climbing a drainpipe, an Elvis Presley lookalike materialising in a rural garden) are conjured and discarded as if by a fly-by-night magician having a last riffle through his tricks trunk.

London Kills Me is handicapped less by its bad moments than by the fact that its good moments are never allowed to develop. This London is a place of such choppy rhythms and time-warped Bohemianism that we might have crash-landed in any year between the late 1960s and the late '80s. Kureishi, we know, has a keen eye for the multi-ethnic misfits and oddballs who people modern Britain and for Britain's sly retaliatory propagandism. But these motifs need room to grow. *London Kills Me*, unkempt and headlong, is more like a first-time director's overanxious sales pitch for a film than the film itself.

★

The Addams Family, a Gothic comedy belatedly ripped from the old TV sitcom and older Charles Addam cartoons, seems aimed at filmgoers with an average mental age of five. Since the film has been a sizeable box-office hit in America, we quail at the implications for Western civilisation.

Nothing wrong with the cast. The cream of American character acting is here present, pouring itself over a sadly stale *zuppa inglese* of slapstick and special effects. Anjelica Huston is the camp and cooing Morticia, Raul Julia is the fly and Spanish Gomez, and Christopher Lloyd is the halfwit son of one of the family lawyer's clients, an overgrown booby who passes himself off as long-lost Uncle Fester to pierce the Addams household and discover their hidden treasure.

Barry Sonnenfeld directs as if he has a dog snapping at his behind. Every camera movement swoops or soars. Richard MacDonald's Gothic decor is explored with a glee seldom accorded by a director to his designer; but it is glee of a disordered and demented kind. We long for the witty rather than wacky, and in the brief moments when subtler half-smiles are conjured – as when Gomez and Morticia recall their first love tryst: "A boy, a girl, an open grave" – *The Addams Family* begins to seem worthy of its production values.

★

"Now just hold your hosses one goldarn minute, yow'all!" locutes John Cleese in *An American Tail: Fievel Goes West*, exhibiting all the Western panache of a madman reading a phonetics phrase-book. Cleese is a sonic delight as Cat R Waul, the whisker-twirling, rodent-hunting villain in this animated feature about a mouse (Fievel) who loses and re-finds his parents when the family move west from New York.

Yes, it is the same plot as *An American Tail 1*: only the geography is different. For bustling Central Europe read ditto New York. For Atlantic ocean crossings read dusty journeys by train or tumbleweed across deserts deprived of cheese or water; though an audience-assisting map of America does give us a brief, whimsical view of buttes of cheddar and mesas of gruyere.

These parched wastes are patrolled only by the odd buffalo skeleton dancing to "Puttin on the Ritz" (a mirage) or by Red Indian mice (real) who tie up Fievel's friend Tiger the cat, voiced by Dom DeLuise. The whole film lollops along from one pleasant, half-brained comic wheeze to the next, finally coming to a dazed standstill when James Stewart arrives to lend his octogenarian stammer to Sheriff Wylie Burp. The best of the movie is Mr Cleese and Mr Cleese's best is early on: a feline Fawlty in red cat and topper, yelling out indignation in teach-yourself Texan.

★

Henry Jaglom's *New Year's Day* is a charming psycho-comedy from the maker of *Sitting Ducks* and *Someone To Love*. Jaglom himself plays a sort of Fievel going East: a writer arriving in New York to find his sub-let apartment overrun by kooks and weirdos (female). Can he solve their problems? Or they his?

He falls in love with one girl – the dazzling Maggie Jacobson, as tousled and talkative as a Rohmer heroine – and is amiably at sea with the rest. Meanwhile unexpected guest stars float in and out, including director Milos Forman and Jaglom's actor brother Michael Emil. *New Year's Day* is not so much a movie, more a group therapy session for casualties of the modern entertainment industry. But since we all belong to that category in the media-bombarded 1990s, you might go along to laugh and cry.

Finally, I must stamp my feet in approval of Ken Loach's *Riff Raff* winning the European Film Award. Feted at Cannes and on the Continent, the film has barely even been shown in cinemas over here. To make up for all those opt-out clauses in our new EC membership, perhaps we could have a special opt-in release for the best British movie of the year?

Nigel Andrews

Clint and Muffdiver: Justin Chadwick and Steven Mackintosh in 'London Kills Me'

La Fille mal gardée

COVENT GARDEN

Amid the tinsel and trumpery heralds of Christmas, what more true and touchingly happy than *La Fille mal gardée?* Ashton's idyllic vision of country life – and of classical dancing – has returned to the Opera House repertory, and offers its audiences those virtues of supreme craftsmanship and inspired invention that make it one of the unassailable masterpieces of our century's ballet. It also, most preciously, communicates joy: joy in a variety of dancing: joy in a narrative that does not pall; joy in performance, from stage and pit, that keeps this dear ballet ever fresh and ever welcome.

Its revival at the Opera House on Tuesday night brought us a new Colas in Irek Mukhamedov, with Lesley Collier his Lise, David Bintley as Simone, Guy Niblett as Alain. For Mukhemedov, the playing of the role presents no problems. He has the physical allure – none more so – the unaffected sincerity and humour that are exactly right for the love-lorn young farmer. Seeing him in the first scene eager to be beside his Lise, and edging near her after the storm to snatch a kiss, or joyously agreeing that they should have three children as he leaps from his hiding place among the corn-stooks, is to see a dance-actor already at ease with the role, illuminating it with his own happy ardour and wit. At every moment the character lives, feels, and tells us of his life and feelings with the most dashing and unforced charm.

In matter of dancing, the personality is in the main well-drawn. The largeness of Mukhamedov's dynamics, the bigness of his style, are among the pleasures of this reading. A problem – or *maybe a need for adjustment* on our part as observers – lies in the fact that Mukhamedov (unlike most British dancers) takes his turning steps by preference to the left, and therefore must perform variations and sequences of choreography in an opposite direction from that we usually see. So Colas' opening solo, and his variations in the corn-field duet, are shown as mirror images of the accepted text. The effect in this first performance was disconcerting for a seasoned viewer, and slightly at odds with Ashtonian stage-patterns. But these are minor matters; the reading was in every other respect authentic, ideal.

From the other principals, interpretations we know and respect. I think David Bintley a marvellous Simone, compact of bustling energy and impeccable timing. Guy Niblett's Alain is less simple-minded than some, but no less pathetic for that, and as nimble-footed as Alexander Grant, the role's great creator. Lesley Collier knows every step and nuance that make up Lise's character, and has her own bright way with them (though I think the role thereby loses the delightful innocence Nadia Nerina first gave it), and I record with especial happiness that Leslie Edwards, the original Thomas, is still irreplaceably on stage, playing with all his customary felicity and humour. All's well.

Clement Crisp

Did 'Clarissa' adapt well to the screen?

Alastair Macaulay debates the pros and cons of BBC2's serialisation

If a poem can be translated, then a novel can be adapted – even an epistolary novel. *Clarissa*, the greatest of all novels written in letter form, has been adapted before the BBC2 version which ended last night. Robin Holloway's opera was given at the English National Opera only last year; and in 1820 the Paris Opera presented an important ballet version, *Clari*. (I suspect it influenced the 1841 classic *Giselle*.) Beside these, the recent BBC2 three-part series is a model of detailed fidelity to the original.

What the TV series (written by David Nokes and Janet Barron, directed by Robert Bierman) shows you, is the basic plot; and it is a great one. Lovelace, the prince of rakes, is set against Clarissa Harlowe, paragon of feminine virtue. Abduction, treachery, rape, death follow. What remain always ambiguous are love and the struggle for power between the two. The TV series catches all this to a surprising degree. True, it is really a race through the highlights of Richardson's action, but even that conveys a great deal.

Yet anyone turning from the TV set to the novel is in for several shocks. The TV screen can show you that writing letters is important to Clarissa, but it cannot show you that letter-writing is in fact one of the most subtle attractions between Clarissa and Lovelace. Reading the hundreds of letters each one writes to his or her confidant, we cannot help sensing how much they have in common even when they are most opposed to each other on matters of principle. Each is highly literate; each has a passionate need to write.

More than that, Clarissa and Lovelace both need to analyse their feelings, their motives, their integrity at every stage. Even when Lovelace sees himself as one of Satan's agents, he must scrutinise himself; and he must scrutinise Clarissa; though her virtue continually evades his final understanding. It is this constant precision of self-examination that makes *Clarissa* so intensely stirring; it is the only novel which could make Jane Austen appear, by comparison, morally sloppy.

Action – which is TV's home ground – is not eventually what *Clarissa* is about. TV has to show us the rape, because that is the great apex of the book. But in the book the rape is the one thing neither Lovelace nor Clarissa will discuss even to their closest intimates. And Richardson's masterstroke is the dreadful ambiguity of Clarissa's feeling for Lovelace. For he is the most irresistible of men; even her main correspondent, the blazingly independent Anna Howe, feels his allure.

But Clarissa is ruled by her principles. Even under the strongest glare of self-inspection, she avoids expressing what she feels for him. Equally fine is Lovelace's confusion about Clarissa: does he want to save or ruin her? And so a powerful irony gathers about their surnames. Lovelace, Loveless. Harlowe: the T is silent.

Only a fraction of these crucial aspects of *Clarissa* could possibly come across on TV, but I am amazed that so much did. Perhaps the very speed of the series helped to create the ambiguities that a more detailed, lingering treatment could not have sustained. The most important missing ingredient is Clarissa's own moral rigour; and much of this could have been caught. The novel's Clarissa has a thrilling pride, an unflinching refusal to compromise, an ability to expose her wrongs with such clarity that she dumbfounds even Lovelace and his whores. The TV Clarissa was too mild.

Clarissa and Lovelace in the novel exert such force on the imagination that no casting can be quite satisfactory. But I loved the outer calm, the unfathomable self-possession, with which Saskia Wickham played the role. Both she and Sean Bean (Lovelace) are beauties along 18th-century lines, and showed clearly what sets these characters above the Georgette Heyer stereotypes that have followed in their wake.

All the other casting struck me as admirable, especially Lynsey Baxter playing Clarissa's sister Bella with a nice mixture of sensuality and malice. Any adaptation will involve additions as well as subtractions, but though I was surprised to see the hint of incest between Bella and her brother James I was not dismayed. Many visual details – such as the contrast between the whores' fine maquillage and rotten teeth – were unlooked-for dividends.

In short, this was the best televisation of an 18th-century novel I can recall. But... Catullus once translated one of Sappho's greatest poems into Latin, and a commentator later wrote of his version words to this effect: "It is the greatest translation ever written. Beside the original, however, it is puffed-up, contrived, hollow." Those are my sentiments on the TV *Clarissa*.

Sean Bean and Saskia Wickham as Lovelace and Clarissa: dreadful ambiguities of feelings

London Symphony

BARBICAN HALL

All things considered, Richard Strauss's *Sinfonia Domestica* is doubtless an unnecessary, uncalled-for work, gross as a whole and hugely excessive in detail. He wrote it just before *Salome*, not knowing that he was on the verge of abandoning symphonic music for 40 years of opera instead. Even Straussians *tut-tut* over it; and yet, once in a while – preferably at intervals of many years – it can be tremendous fun to hear. Certainly it was on Sunday night, when Rafael Frühbeck de Burgos conducted it with the LSO.

In stuff like this, which wants iron crowd-control as well as the stamp of a firm silhouette, Frühbeck de Burgos shows his high professional mettle. He drew keen, tireless playing from his band, whose stamina was astonishing. (During the wildly over-stretched ending there was a touch of hysteria in the horns, but it sounded more like a comment than a lapse.) He paced the voluminous score like a master, with some original touches to distinguish it from a Böhm or Reiner reading. There was lively character in all the tunes, and he kept the great swatches of orchestral colour clean and vividly contrasted, the overweening polyphony as lucid as is humanly possible.

In short, the *Sinfonia Domestica* sounded about as good as it ever can, and while it lasted (somewhere past three-quarters of an hour) it was a pleasure to relish – and to follow, this being a thoroughly intelligent reading as well as a properly *shameless blaze in the right* places. The LSO's guest leader Yuri Torchinsky made "Pauline"'s solo-violin role tell sweetly amid the hubbub, more gracious than the real-life Pauline was wont to be.

Earlier there was Sibelius, his curious, visionary *Night Ride and Sunrise*: it seems to be finding its way into concert-programmes more often, and very welcome too. Here it was tautly measured and controlled, lacking just a touch of mysterious distance at the start of the cantering "night ride". Then Igor Oistrakh delivered the Mendelssohn Violin Concerto with reliable authority, if no very remarkable imagination; the musical effect was sound and loyal, flecked only slightly by some slippery pitch and a broader vibrato than Mendelssohn really needs. The sense of long, deep familiarity with the music carried the day.

David Murray

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

■ BERLIN

Schauspielhaus *20.00* Gerd Albrecht conducts the Berlin Staatskapelle in Bruckner's Seventh Symphony and Mozart's *Violin Concerto in D major K218*, with Elisabeth Glass, repeated tomorrow. Sat afternoon and Sun morning: Bernard Haitink conducts *the Berlin Philharmonic. Sat and* Sun evenings: Alan Miller conducts the Berlin Symphony Orchestra (East Berlin 2272 261). Sat at the **SFB Grosser Sendesaal:** *Vladimir* Ashkenazy conducts the Berlin Radio Symphony Orchestra (3027 242)
Komische Oper 20.00 Muhai Tang conducts the Orchestra of the Komische Oper in Berlioz's Symphonie Fantastique and Chopin's First Piano Concerto, with Joacquin Achucarro. Tomorrow: Bartered Bride. Sat: La boheme. *Sun: Tom Schilling's production* of Cinderella (East Berlin 2292 555)
Deutsche Oper 19.00 Stefan Soltesz conducts Giancarlo del Monaco's production of Samson et *Dalila*, with Marjana Lipovsek, Vladimir Atlantov and Alain Fondary. Tomorrow: L'elisir d'amore. Sat: ballets by Balanchine, Roland Petit and Petipa. Sun: Christian *Thielemann conducts Lohengrin*, with Thomas Moser, Ekkehard Wlaschiha, Eva Johansson and Eva Marton (West Berlin 3410 249)
Philharmonie Kammermusiksaal 20.00 Piano recital by Cyprien Katsaris. Tomorrow: Cherubini Quartet plays string quartets by *Mozart and Janacek. Sun: Dietrich* Fischer-Dieskau sings Schoeck's Notturno (West Berlin 8256 160)

■ BUDAPEST

State Opera 19.00 Cosi fan tutte. Tomorrow and Sat: La clemenza di Tito. Sun and next Wed: Die *Meistersinger von Nurnberg.*
Erkel Theatre 19.00 Der Zigeunerbaron, operetta by Johann Strauss. Tomorrow: Nutcracker. *Sat: new production of Hansel and* Gretel, also Dec 15, 17, 18, 20, 22, 29.
Academy of Music 19.30 Lamberto *Gardelli conducts the Hungarian* State Symphony Orchestra. Sat: Tamas Gal conducts Puccini and Mahler with the Budapest Concert *Orchestra and Hungarian State* Chorus.
● Pre-booking for concerts at the National Philharmonic Booking Office (Vorosmarty ter 1) *and for* opera at the Central Theatre Booking Office (Andrassy ut 18), also at theatre box offices.

■ CHICAGO

Orchestra Hall 20.00 Pierre Boulez conducts the Chicago Symphony Orchestra and Chorus in Debussy's Nocturnes, Bartok's Cantata Profana, Schoenberg's Variations *for Orchestra and Ravel's* La Valse. Repeated tomorrow at 13.30, Sat and next Tues. Tomorrow at 20.00 recital by Kathleen Battle (435 6666). Tomorrow and Mon *in Civic* **Opera House:** Lyric Opera *production of* L'elisir d'amore. Sat and Tues: Madama Butterfly (332 2244)

■ DRESDEN

Semperoper 19.00 Miriam Gauci sings the title role in Christine Mielitz's production of La traviata, *also Sat. Tomorrow: Ariadne auf* Naxos, with a cast including Olaf Bar and Klaus Konig. Sun: two new ballets by Johannes Bonig *(4842 731)*

■ GOTHENBURG

Tomorrow and Sat in the ***Konserthus**, Neeme Jarvi conducts* the Gothenburg Symphony Orchestra *in* Tubin's Fifth Symphony and Mozart's Violin *Concerto* No 3, with Joshua Bell (167000)

■ LEIPZIG

Tonight and tomorrow at 20.00 in the **Gewandhaus,** Kurt Masur conducts the Leipzig Gewandhaus Orchestra in Beethoven's Fourth *Piano Concerto with soloist* Peter Rosel, and Mahler's Das Lied von der Erde, with Carolyn Watkinson and Siegfried Jerusalem (7132 252). *Tomorrow in the Opernhaus: Der* fliegende Hollander with Gwyneth Jones and Franz Grundheber. Sat: The Nutcracker. Sun and next Wed: new production of La boheme (7168 273)

■ LONDON

THEATRE
Blood Wedding: national mobile tour of Lorca's play, translated by Gwenda Pandolfi, directed by Yvonne Brewster and relocated from Andalusia to Cuba. Opens tomorrow (National, 071-928 2252)
● *Noel and Gertie: the original* West End production of the *musical, devised by Sheridan* Morley, about the working relationship between Noel Coward and Gertrude Lawrence, now *starring Susan Hampshire and* Edward Petherbridge (Duke of York's, 071-836 9837)
● Phantom of the Opera: the *other Phantom (which predates* Andrew Lloyd Webber's) - the one that started life at the Theatre Royal, Stratford East, and has *toured Britain and the US for the* last couple of years - finally gets its West End premiere. Unlike Lloyd Webber's version, Ken Hill has *left the score to the likes of Verdi,* Mozart and Weber. Peter Straker plays the Phantom. Previews from tonight, opens next Wed *(Shaftesbury, 071-379 5399)*
● Jack and the Beanstalk: Cilla Black, making her first appearance in a West End panto for ten years, plays the title role in this new production by Tudor Davies. Opens tomorrow, runs till Jan 19 (Piccadilly, 071-867 1111)
● *For ticket information about* all West End shows, phone Theatreline from anywhere in the UK: Plays 0836 430959 Musicals *0836 430960 Comedies 0836 430961* Thrillers 0836 430962
MUSIC
Barbican 19.45 Colin Davis conducts the London Symphony Orchestra in the world premiere of Peter Wiegold's Soft Shoe Shuffle, plus Dvorak's Seventh Symphony and Mendelssohn's Piano Concerto No 1 with Mitsuko Uchida. Sat: James Galway's Christmas Collection. Sun: Colin Davis conducts Beethoven's Missa Solemnis (071-638 8891)
Queen Elizabeth Hall 19.45 Song *recital by Anne Sofie von Otter*, accompanied by Bengt Forsberg. *Tomorrow: violin recital by* Xue-Wei. Sat: Mazury, Dance Company of the Polish YMCA. Sun: London Concert Choir in Salieri's *Te Deum* and Schubert's Mass in G (071-928 8800)
Royal Festival Hall 19.30 Stephen Cleobury conducts the RPO, *Choristers of King's College,* Cambridge and Cambridge University Music Society in Poulenc's Gloria, Britten's *Ceremony of Carols and Vaughan* Williams' Fantasia on Christmas Carols. Sun and next Wed: Pollini plays Brahms, with Wolfgang Sawallisch and the LPO (071-928 8800)
Coliseum 19.00 Le nozze di Figaro, with a cast including Bryn Terfel and Joan Rodgers, also Sat. Tomorrow: Adam Fischer conducts Richard Jones' new production of Die Fledermaus (071-836 3161)

■ MILAN

Teatro alla Scala 20.00 John Cranko's production of Romeo and Juliet, designed by Jurgen Rose. Runs till Jan 17, with next performances on Sat and next Wed. *Fri and Sun: Muti conducts Parsifal* (7200 3744)

■ MUNICH

Staatsoper *19.00 Fabio Luisi* conducts Il barbiere di Siviglia, with Julie Kaufmann as Rosina. Tomorrow: La Boheme with Gabriela Benackova and Peter Dvorsky. Sat: Riccardo Duse's production of Cinderella. Sun: Rene Kollo sings Peter Grimes (221316)
Philharmonie 20.00 Semyon Bychkov conducts the Bavarian Radio Symphony Orchestra and *Chorus in Mahler's Second* Symphony, with Edith Wiens and Christa Ludwig, also tomorrow. Sat: Nigel Kennedy (48098 614)
Herkulessaal der Residenz 20.00 Hans Stadlmair conducts the Munich Chamber Orchestra in symphonies by Mozart and Schubert, plus Richard Strauss' Oboe Concerto played by Hansjorg Schellenberger. *Tomorrow: piano* recital by Deszo Ranki. Sat: Slovak Chamber Orchestra (299901)
Kammerspiele Tomorrow is the *first night of Ibsen's When We Dead* Awaken (1899), directed by Peter Zadek. Repeated on Sun, Mon and Tues (23721 328)
Deutsches Theater 20.00 Kiev State Opera Ballet in Sleeping Beauty, also tomorrow, Sat and Sun. Performances continue in the **Gartnerplatztheater** in Christmas week (593427)

■ NEW YORK

Avery Fisher Hall 20.00 Erich Leinsdorf conducts the New York Philharmonic Orchestra in Mozart's March K249 and Haffner Serenade, plus Schumann's Second Symphony. Repeated tomorrow at 11.00 and Sat (875 5030)
Carnegie Hall 20.00 Song recital *by June Anderson, accompanied* by Steven Blier. Tomorrow in **Weill Recital Hall:** song recital by Dolores Ziegler. Mon: Andre Watts *piano recital (247 7800)*
Metropolitan Opera 20.00 La traviata with Cheryl Studer and Alfredo Kraus. Tomorrow: Aida. Sat afternoon: Entfuhrung. Sat evening: Idomeneo (362 6000)

■ ROME

Teatro Olimpico 21.00 Shlomo Mintz, accompanied by Viktoria Postnikova, plays violin sonatas *by Bartok, Janacek and Beethoven* (3234 890)

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MONDAY TO FRIDAY

CNN
0730-0800 *Moneyline*
1230-1300 Business Morning
1330-1400 Business Day
2000-2030 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman
2300-2330 World Business Today
0100-0130 Moneyline

Super Channel
0600-0620 Business View
0630-0700 Business Insiders
2130-2200 (Tues) East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Wed) FT Business Weekly - tglobal business report with James Bellini
2130-2200 (Thurs) Talking Heads - *International Issues*

Sky News
1200 International Business Report
1130, 1730, 2130, 0430, 0530 (Thurs) FT Business Weekly

SATURDAY

CNN
0730-0800 Moneyline
0900-0930 World Business This Week - a joint FT/CNN production
1540-1610 Moneyweek
1900-1930 World Business This Week

SUNDAY

Super Channel
1800-1830 FT Business Weekly

Sky News
1330, 1630, 2030, 0030, 0230 FT Business Weekly

CNN
1800-1830 World Business This *Week*

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Thursday December 12 1991

Multi-speed move to union

THE EUROPEAN Community *has set itself on a multi-speed* path towards European Union. The move *to union, even if* qualified, is an achievement to gladden the hearts of Mr Helmut Kohl, Mr François Mitterrand, Mr Jacques Delors and other proponents of this move, whatever their disappointment *over specific issues.* To his equally great delight, Mr John Major managed *to opt* the UK both out of monetary union and out of further moves towards a common social policy. Yet a leader whose motto *was that the* UK should be at "the heart of Europe" must recognise *that this might be a* Pyrrhic victory for his country.

Forget, for the moment, what has not been agreed. Focus, instead, on what has:

- *a definite* commitment to an economic and monetary union, by 1999, among those *countries* that reach the qualification threshold;
- an inter-governmental common foreign and security pol*icy "which might* in time lead to a common defence";
- delegation of responsibility for the European Union's decisions and actions that have defence implications to the Western European Union, "which *is an* integral part of the development of the European Union";
- a European citizenship;
- a new "cohesion fund" to help relatively poor member states;
- a *more extensive social programme,* though one that does not apply to the UK;
- involvement of the European Union in matters of immi*gration; and*
- modestly enhanced powers for the *European parliament.*

This package falls short of the desires of some of the participants, Mr Kohl in particular, especially over the powers of the European parliament, over social policy, over immigration policy and over the new defence and foreign policy responsibilities. It should be recognised, *nonetheless, as a* large leap for the EC.

Enhanced powers

For the first time, the treaty has been revised not in order to extend the Community's competence in the European market-place, but to extend the EC's capacity to make common policy, or to supervise member state policies, in such central domains of the state as monetary, fiscal, foreign and security policies. Much remains to be done to make some of these enhanced powers more democratically accountable. But the mew entity does deserve the name of union.

Emu is the heart of the new treaty. *"If by the end of 1997* the date for the beginning of the third stage has not been set, the third stage will start on 1 January 1999." By these *simple – to Mr Delors and Mr* Mitterrand heart warming – words the German government has put planning blight on the Bundesbank. The Bundes*bank's disappearance is as cer*tain as any treaty can make it.

Yet Germany did not lose this battle. For what has also been agreed is that only those countries may participate that fulfil the necessary conditions: inflation and long-term interest rates within 1½ per cent and 2 per cent, respectively, of the three best performing member states; an exchange rate that has been stable within the exchange rate mechanism of the EMS *for the preceding* two years; and no "excessive" budget *deficit. The latter is to be* assessed in relation to two "reference values": a planned or actual budget deficit not in excess of 3 per cent of gross domestic product and a ratio of government debt to GDP not in *excess of 60 per cent.*

Convergence criteria

The combination of the time table with the convergence criteria represents explicit acceptance that moves to monetary union will occur at multiple speeds. It is possible that very few countries will meet the criteria in 1999. But the knowledge that *no country* can halt the move to Emu must be a powerful incentive *for* improved performance among the laggards.

The emergence of a multi-speed Europe is equally evi*dent in the exceptions won by* the UK. But, for a major country to want one exclusion may be regarded as a misfortune, to have insisted on two looks like carelessness. *Furthermore,* if one exclusion had to be sought, *it should* have been not over monetary union, but in the social area, which is both of less *significance* to the whole enterprise and in parts harmful. It is most unlikely *that the* UK would stand outside a monetary union, if it were qualified to enter and the union were to go ahead. This way it will gain *all the opprobrium of exclusion* without whatever benefits might accrue from actually standing aside.

Whatever the disadvantages *to the UK, the emergence of a* multi-speed union is in itself a sensible recognition of reality. It is sensible in the concrete area of Emu, because it will allow those able to do so to go ahead while forcing others to confront the challenge *of con*vergence. It is equally important, however, for dealing with the most urgent task confronting the new union, which is enlargement. *Whether or not a* fully-fledged and perfectly homogeneous union of all conceivable European states does ultimately emerge, the interim period *must be a union with* several rooms. Construction of the mansion is now far enough advanced for the next step to be an extension of invitations *to those who want, and need,* to enter.

A personal victory

THERE *IS* no doubt that the agreement reached at Maastricht constitutes a personal triumph for Mr John Major. His strength of character has *now been put to the test by the* assembled heads of government of western Europe. The result is considerably to his advantage. Plainly, there is more to the *prime minister* than a desire to be liked.

Whatever the rights and wrongs of Tuesday night's stand-off on the social chapter of the treaty, Mr Major can say that it was not he who blinked first. He *has therefore come* home with a document that is already attracting the support of the majority of Conservatives. Although he did not win every point, he has managed to tailor the overall agreement on political and monetary *union* to perceived British concerns. *This might* have been beyond the powers of his predecessor. His hard-centred emollience has proved successful where Mrs Margaret Thatcher's erratic flamboyance might have failed. Certainly the European *Community's folk-mem*ory of a British prime minister *protesting* and expostulating only to capitulate at the last minute was effectively destroyed on Tuesday night.

Irreconcilables

That should *further reduce* the influence of the irreconcil*ables within the Conservative* party. Some former Euro-sceptics are already rallying to the prime minister. The band of diehard Tory opponents of anything to do with the EC is dwindling. Its influence will be measured in precise terms, in votes, after next week's parlia*mentary debate.* There will undoubtedly be opposition from some Conservative backbenchers. Yet this should be containable. Mrs Thatcher may well resume her campaign against the very idea of Euro*pean monetary union, but* Mr Major has done everything he possibly could to outflank her.

Prize for Labour

He has, however, paid a price. The agreement contains a prize for Labour. Its leaders argue that the prime minister refused to accept the social chapter merely in order to *appease his party. The notion* that acceptance would have ensured that British employees would have the best working conditions in Europe may be specious, but it sounds good on the hustings.

*Mr Neil Kinnock can there*fore add to his long list of campaign promises an undertaking to sign the separate social protocol arranged by 11 members of the EC.

The upshot is a phoney polarisation of the European debate. Supported by enthusiastic Liberal Democrats, Labour is on the attack. The government, Mr Kinnock said yesterday, has doubly opted out, out of the single currency and out of the social chapter. This accusation is accompan*led by much rhetoric about a* two-speed Europe, of Britain being isolated. The Conservatives have to defend a negotiation that, on the British side, was largely negative.

Mr Major must also know that this week's success will soon be forgotten. With the economy in trouble, bread-and-butter politics will be back after Christmas. He will *need* more than the tactical skills *shown at Maastricht* to deserve victory in the general election.

The Maastricht treaty is a curious hybrid that will win no prizes for symmetry and will be hard to implement, says **David Buchan**

A Heath Robinson design for Europe

They did it. In the small hours *of a cold Maastricht morning,* the 12 EC leaders reached *final agreement to turn their* Community into a political and monetary union, now to be grandly called the European Union.

The Maastricht treaty is indeed the biggest milestone in the Community's 34-year history. It contains, among the goals cited in its preamble, many of the attributes – common citizenship, defence and money – of a potential Euro-superstate. Yet it also makes clear that its intent is not to melt *member countries into a United* States of Europe, but rather to retain the present mosaic of ever more closely co-operating nation states.

The new treaty, which is part broad constitution, part detailed business plan, *maps out the EC's course* until the end of the century. The timetable is clearest on economic and monetary union (Emu), which is to be crowned with a single currency by January 1, 1999 at the latest.

In addition the treaty, or its annexes, charts the road ahead in developing a common EC defence policy through the Western European Union (WEU); its membership is to be expanded to match that of the EC and its future will be reviewed in 1998. Two years earlier, in 1996, there will be a more general constitutional review of the Maastricht treaty. The *focus of the review – though Britain* succeeded in preventing this being made explicit – will be to see whether the new inter-governmental co-operation in foreign/security and in immigration/criminal justice policies can be brought more under standard *Community rules.*

What Maastricht has brought forth is a strange, *heterogeneous* creature which, as a bleary-eyed official of the Dutch presidency of the EC admitted early yesterday morning, "will win no beauty prizes" for clean sym*metry.*

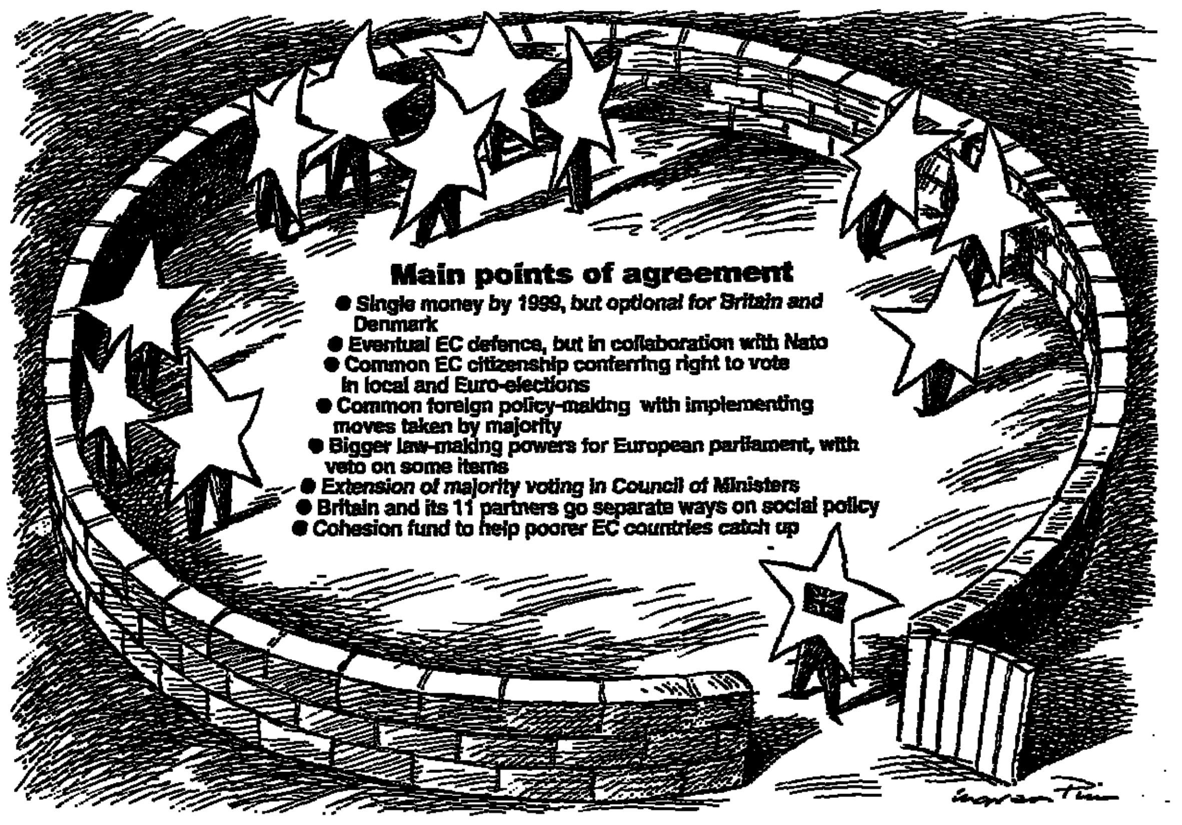
It has been made very clear that member states are now *less* inclined, or able, to keep together in pursuit of the Community's collective ambitions – ambitions which are being set ever higher. So member states are likely to *start opting in or out. There is, for a* start, now to be a giant opt-out for all of Britain's 11 EC partners, who have effectively decided to create a separate "European Social Community" *that will use EC institutions to make* its laws.

Thus, the Brussels Commission, with British members, will propose social legislation, which the Strasbourg Parliament with its 81 British MEPs will then amend. In theory, Mr Michael Howard, the *UK employment* secretary, will absent himself from the Council of Ministers.

But can he preside, yet not vote, during Britain's EC presidency in the *second half of next year?* Will the Eleven have to find another president on this issue for that period of *1992? If* so, how? Given these complexities, it was not surprising that *many* other EC *delegations* were yesterday hoping that Britain might have a Labour government next year, *pledged to the* Social Charter.

The opt-out on Emu for Britain and Denmark (which wants to hold a referendum) is also sure to lead to prob*lems. One of these emerged late dur*ing the Maastricht summit. This is that Britain will be able to take part in the vote in 1996 – which it is agreed will be the first attempt to *launch Emu – on whether there* is a sufficient "critical mass" of countries to form the currency union. This "critical mass" is set at a majority (seven) of the 12, or whatever number *of countries then make up the Com*munity.

What happens if Britain is one of only seven countries deemed economically fit to pass to Emu, but London *opts out? If only six were* both ready and willing to go to Emu, the answer seems to be that Emu would remain



stalled. A solution, but not a water-tight one, to this problem lies in a protocol to the Maastricht treaty. This protocol *on the "irreversibility of* movement towards Emu" states that no member should act so as to prevent a single currency coming into being.

It is the clear intention of the Maastricht treaty that countries should not be able to pick, *à la carte,* from the now-expanded menu of goals and policies prescribed for the European *Union.* But defence will pose a partic*ular problem. At present the* WEU *has* only nine of the EC states as its members. Greece passionately wants to join it, and now will be able to do so. So will Denmark and neutral Ireland, *if they want.*

Member states are now less inclined, or able, to keep together in pursuit of the Community's collective ambitions

However, enlargement of the Community may alter the geometry of its defence dimension again. Austria and Sweden, if they still feel strongly *about their neutrality in the post-Cold* War world, may shrink from joining WEU. On the other hand, Poland, Czechoslovakia and Hungary, which may join the Community around the *turn of the century,* would gladly jump into WEU.

These are some of the complexities and inconsistencies – particularly in Emu and social policy – which will bring the Maastricht treaty under fire. *It is true that there is much cleaning* up of the text which has to be done before the treaty is ready, perhaps as late as next March, for formal signing by the 12 governments and presenta*tion for ratification* to their national parliaments. But this interval is for *textual polishing, rather than* substantive re-negotiation.

And the first baptism of fire for the treaty will come as early as *today* when Mr Ruud Lubbers, the Dutch *prime minister* who presided over the Maastricht summit, and Mr Jacques Delors, the Commission *president,* go before the European Parliament to justify it.

The *Strasbourg MEPs have no* direct hold over the treaty in terms of being able to ratify it; they can only issue their opinion of it. But at least one national Parliament – Italy's – *has said it will be guided by* Strasbourg's views when it comes to its own national ratification debate. And the European Parliament is sure to criticise Mr Lubbers and especially Mr Delors, as *leader of a fellow supra*national institution, on several counts.

The Parliament has not got a bad deal for itself. It will now be able to *negotiate amendments* directly with the Council on all internal market legislation as well as measures covering infrastructure, education, health, culture, and some environment and research policies. If, too, the Parliament cannot get its amendments taken up by the Council, it will have a veto to kill the legislation. But MEPs wanted much more, which their champion, Chancellor Helmut Kohl, *failed to win them at Maas*tricht.

Even the treaty's Emu provisions may come under fire. Emu is the only really solid achievement to come out of *Maastricht.* The Community does now genuinely seem to be on a course towards a single currency that is as irreversible as anything subject to the vagaries of economics can *be.*

The stages have been clearly *marked out,* each with its *own* economic criteria and monetary institutions. The sites for the European Monetary Institute (in the second stage) and the European Central Bank (to *manage the single currency* in the final stage) have not been agreed, and probably will take a lot of unattractive horse-trading to settle. But at the moment this is not a key issue.

The EC does genuinely seem to be on a course to a single currency as irreversible as anything economic can be

The Maastricht decision to set 1999 as effectively the final date for the single currency is perhaps not as hot-headed as it first seemed. The fact that no minimum quorum of countries has been set for the passage to Emu in *1999* means *that EC leaders* will be less tempted *to bend* politically the all-important economic convergence tests which countries must pass to qualify for Emu.

Mr Henning Christophersen, the EC commissioner for economic affairs, called it "a very *elegant* solution, marrying clear dates with Germany's insistence on economic *conditions*". And that *seems* to be why Mr Kohl this week overruled the doubts of his officials about *accepting* the formula.

There is less involvement for both the *Commission* and Parliament in Emu than in standard EC business covered by the *Treaty of Rome.* Far greater, however, is the concern on the part of these institutions and some governments (Germany, Belgium and Italy to name three) that *the Maastricht* treaty makes decision-making on foreign and immigration/criminal justice policies almost purely an inter-governmental affair.

But that was the only way in which most governments were ready to take a first co-operative *step* in these sensitive fields, Mr Lubbers said yesterday morning. Outright involvement of the Commission and Parliament in foreign policy decision-making would have made impossible agreement with the UK government, which as it was insisted that *decisions to implement* common EC foreign policy measures by majority had themselves to be taken by unanimity among governments.

On immigration, the Dutch prime minister said that, when he was the first leader ever to raise *the topic at* an EC summit, at Hanover in 1988, "I would have been amazed to think we could bring this matter within the scope of our Union only three years later".

Once a few more years had elapsed, perhaps by the time of the 1996 constitutional review, immigration might be fully brought within the Community *structure, Mr Lubbers added.* However, that will not satisfy MEPs who are frustrated at being legally incompetent to discuss immigration, one of the hottest political issues on their Euro-constituents' minds.

Clearly, it is distasteful for governments like Britain's to move sensitive policies from an inter-governmental forum to the Community proper. At Maastricht, all that Mr Major would do to please Mr Kohl on this score was to agree that the EC could settle policy on short term visitors' visas by unanimity for the time being, and by qualified majority by 1996.

Far more problematic, however, would be movement in the opposite direction, from Community-level to inter-governmental decision making. This is precisely what Mr Delors feared when Mr Lubbers, aided and abetted by Mr Kohl, decided on Tuesday to pursue their social policy ambitions outside the standard Community institutions of the Twelve, to help the UK prime minister out of the *political hole he had dug for himself.* At one point, the Commission president believed that Britain's 11 partners were about to take future social policy right out of the Treaty of *Rome. This is why Mr Delors came up* with his "least bad" alternative of legislating on social matters among the Eleven.

As the man heading the EC executive *which is going to have to make* the Maastricht treaty work, Mr Delors now faces very considerable problems. Before Maastricht, the Commission president was railing against *absurdities* and *"organised schizophrenia"* in the Community's political union treaty. But he could never have imagined that the 12 leaders would come up with such a Heath Robinson *solution on social policy.*

While it may be the biggest step in Community integration in 34 years, the Maastricht treaty will take some selling, even to the most hardened of *European enthusiasts.*

OBSERVER

Much ado about little

■ Open up the case of Tryhorn *vs 27 Park Place due to start* in the London courts on Monday, and out spring two familiar figures once company colleagues in Wales.

Tryhorn is the private company of Britain's best known small businessman, 5ft 4¼in Sir Michael Edwardes, chairman of Charter Consolidated – 27 Park Place is the private company in Cardiff *of Alf Gooding, head* of Race Electronics, who once moaned to a CBI conference that high marginal tax-rates meant it cost him £500 every *time his wife had a hair-do.*

Edwardes, once a non-executive member of the Gooding board, is sueing for consultancy fees under an agreement he claims was prematurely terminated, plus *damages.*

Gooding, more colourful in personality than his clerical grey Bentley, has briefed a silk, Robin Potts, for his defence. His adversary appears more relaxed about the action, expected *to last four days.*

To give a seasonal touch to the case, Edwardes retains a foothold in Wales as non-executive chairman of Christmas-decoration manufacturer, the Porth *Group, which once belonged* to Gooding. To add piquancy, Porth's managing director Neill Bell has been subpoenaed to appear for Gooding, some of whose own personal staff have been called by Edwardes.

So what does it all add up to. Edwardes is claiming *£55,000 with interest, small* beer to the lawyers who'll clean up a lot more than that.

Power switch

■ Gamekeeper turns poacher, with a vengeance. After 70 years as mouthpiece of the Soviet regime, Pravda now sees *itself as chief opposition* newspaper to Boris Yeltsin's government, and claims it is already *discovering what life is like* on the other side.

For instance, it was suddenly plagued with a series of power cuts. Pravda staff *insist the disconnection* was not unconnected with their editors' refusal of a Russian government request to give up some of their office space to four rival publications.

The staff, pointing out that three of the said rivals have the word "Russia" in their titles, are convinced that the "democrats" now in charge are determined to shut down *the former communist* press.

Even if that's true, however, they may not need to bother. Without party subsidies Pravda's cash-flow is dwindling and its circulation, like that of most other newspapers in the country, is plummeting.

The reason? According to a recent poll, the citizenry are increasingly becoming too disillusioned with politics and the like to pay out kopecks to read about same in any paper – *communist, ex-communist* or whatever.

Working out

■ Sign of the times. Royal *Bank of Scotland's high fliers* carry visiting cards advising clients that the person in question is a member of the corporate recoveries/syndication department. Surely, it should be the other way round?

More Palumbo

■ Guess who *is helping* bankroll London's grooviest non-alcoholic night-spot, The Ministry of Sound?

The answer is Jamie Palumbo, son of the chairman of the Arts Council. When he's not learning how to be a corporate financier at the JO Hambro Magan merchant banking boutique, he can be

found keeping an eye on his most exciting investment *down* by the Elephant and Castle.

In some of the City's more fuddy-duddy merchant banks, this sort of extramural activity might be frowned upon. But, after all, his father has never *shied away from controversy.*

Passed over

■ Word has reached Observer of the death of the extraordinary item. The funeral will be next summer. *No flowers please, but* contributions to the out-of-work accountants' benevolent fund, care of the Accounting Standards Board.

Mind you, hopes of a reprieve were alive until the very last minute among the item's loyal fans in the world's *creative accounting* community. The standards *board's original financial* reporting exposure draft had left open the possibility of survival in certain circumstances – expropriation of assets by foreign dictator, for instance, or earthquake in San Francisco.

Alas, it turns out that such examples are no longer extra-ordinary; merely exceptional.

David Tweedie, the board's chairman who pulled the plug on the extraordinary item's life-support machine, still holds out *some faint hope of* resurrection. "But it has to be something cataclysmic, totally out of the blue and not recurring", he says. So much *so that he cannot offer an* illustration.

The extraordinary item will be remembered fondly by many companies. Ranks Hovis McDougall, for one, was a profitably devoted admirer.

Indeed, *perhaps it* was grief that prevented RHM's Paul Coker from even coming to the phone to pay a final tribute. Observer sends *condoleces to him,* and all his fellow mourners.

Health warning

■ When Otto Wolff von *Amerongen, the man long* charged with championing Germany's trading ties with the Eastern bloc, sounds a cautionary note, then the rest of Europe needs to be alarmed.

As the Grand Old Man of *German trade with the former* Communist countries, Wolff worked tirelessly to get German industry to invest in the East. However, he admitted yesterday that if he had a choice about where to invest his "last million" he would prefer German Treasury certifi*cates to investing in the East.*

Liquid asset

■ Some mistake? Brokers Credit Lyonnais Rouse lately advertised for overseas *agents* to sell a new Derivatives Umbrella Fund. Back came a reply from Libya, reading:

"I wish to represent your company to sell Umbrella Product in Benghazi. I have a good warehouse near Batririya market in Meseki. We are experiencing winter presently and umbrella product will be fast moving in the market as there is no much competitor."

ECONOMIC VIEWPOINT

A victory, but not quite a triumph

By Samuel Brittan

If the *Maastricht* summit had broken down, *Economic Viewpoint* would have had to discuss a sterling crisis. For confidence in the parities of the Exchange Rate Mechanism has depended very much on the political support it has enjoyed as a step towards a single currency.

The Maastricht summit is thus a victory for John Major, which could have been a triumph if he had felt politically strong enough to embrace the single currency to the extent that Germany has, stop quibbling about the word "federalism", and concentrate his fire on the centralising and *dirigiste* tendencies of the Community, which are symbolised by the so-called Social Charter.

There is nothing in principle against a multi-speed Community, which will become obviously necessary with the process of enlargement. But two derogations for one country out of 12 – and one of the more prosperous and industrialised countries at that – does leave a sour impression of the British dragging their feet; and indeed one wonders at the patience of EC partners, which must say something for the British prime minister's tireless "winning friends and influencing people".

The agreement of the Community countries to adopt a single currency, with a binding timetable, is a momentous achievement. It represents a victory of Latin formalism over British pragmatism and would never have taken place if the *preferred UK one-step-at-a-time* approach had prevailed. It is also a victory for visionary politicians over cautious central bankers and officials.

There is now an excellent chance that the new currency will come into existence by the end of this century – which will involve the free interchange of existing currencies at irrevocably fixed exchange rates several years beforehand.

Community citizens will not necessarily have pockets full of Ecus at the beginning of 1997 or 1999. According to the EC Commission some 64bn Ecu coins would have to be minted, which would take about five or six years and require more than 300,000 *tonnes of metal* – unfortunately mainly copper and nickel. It might take two or three years just to settle the design of the new notes and coins and to prepare the mints and printing presses.

This may be as well, for people dislike losing familiar units. In France some people still reckon in terms of "old francs" which were abolished 30 years ago.

The practical effect of these habits will not be to ditch Emu. On the contrary, existing

'The pound in your pocket will not be devalued'

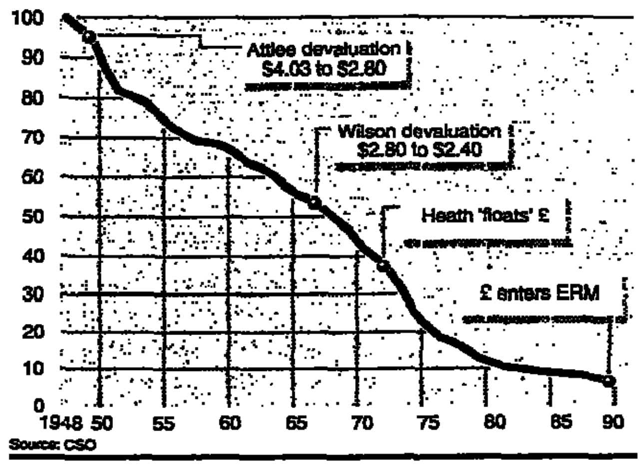
currencies will be given fixed Ecu values and become accept*able in neighbouring countries* – subject only to the kind of resistance which London taxi drivers show towards Scottish pound notes.

The most important task at both the popular and the monetary policy levels will be to fix the exchange rates of existing currencies irrevocably with the minimum of delay and to pursue monetary policies consistent with their remaining fixed. The quiet announcement during the summit that the Banque de France would acquire monetary independence, shows the shape of things to come.

The preparation of a joint monetary policy will be *entrusted from* 1994 *to the* European Monetary Institute – which will be the Committee of Central Bankers under another name. This is highly likely to be headed by the present governor of the Banque de France, Jacques de Larosière – a person whose sound monetary credentials the Germans will not be able to question. Indeed, many will enjoy the spectacle of de Larosière interrogating Germany on its excessive budget deficit.

It is easy to mock the fact that only three countries – France, Denmark and Luxembourg – *meet the stiff* convergence tests of the Emu treaty; and of these one does not have a currency. But the ERM has *already exerted pressure* towards convergence, which will now be intensified; and the fiscal rules which are too strict in headline terms, but subject to many gateways, will in practice be adapted.

Purchasing power of the sovereign pound



Source: CSO

Unlike the Common Agricultural Policy, the much-disputed Social Charter and parts of EC trade and industrial policy, the single currency threatens no one else. Far from it being a barrier to Community membership by central and eastern European countries, it should serve as a beacon of stability to which their own currencies will eventually be linked.

It is scarcely conceivable that Britain will opt to be outside the single currency

* * *

It is scarcely conceivable that Britain will opt to be outside. The UK's economy is totally *different from that* of some of the small prosperous countries in the Far East which can flourish with their own individual *money*.

First, there is the need to continue Britain's attractiveness towards inward investment, especially from Japan. Up to now the political welcome, the use of the Anglo-American language and a past record of success have been sufficient attractions. But will they continue to be sufficient if Britain is separated from the rest of the single market by continued exchange risk and the consequent continued preoccupation with balance of payments problems?

Second, would any British government run the risk to the City of London's financial earnings of remaining outside? In the past the City flourished even under exchange control by providing attractive offshore markets in currencies even where dealings were restricted at home. The historical analogy may not be helpful in relation to a single currency area which enjoys freedom from exchange control and freedom of capital movement.

The question is not rhetorical. It may be that the City would survive very well. But would any British government run this risk simply to preserve the dubious freedom to devalue and underwrite inflation? And is the preservation of such freedom a good use of national sovereignty?

Nor am I expressing just my own view. Who was it who said: "A single currency could be the means of safeguarding anti-inflationary policies for the whole of the European Community. That would be a great prize"? It was none other than John Major in a little-noticed passage in his keynote speech to the Commons before Maastricht. Not to be accused of quoting him out of context, I will cite the rest. "But the *House knows there is a price to* pay for that prize. The price is that it would take from national governments the control of *monetary policy. That* would be a very significant political and economic step for Britain to take. We cannot take *that step now. But nor should* we exclude it."

At present the UK already has, as a member of a hard *ERM, most of the obligations of* a single currency without all the advantages. There would be little to be lost from going the whole hog.

Mrs Thatcher's suspicions that the present compromise is leading to British participation in a single currency, have, as often, a point. It is just a pity that her flag-waving attachment to a debasing currency should get the better of her sound money *instincts*.

Her insistence, in unlikely alliance with Paddy Ashdown, on a referendum is justified. *Not now of course. But before* actually entering a single currency. Moreover I would bet a modest sum of Ecus that the vote will be strongly in favour of the single currency.

One reason is that the electorate will follow a clear lead from the main party leaders when the latter are united. Voters will put it in the vernacular by saying: "They are paid to think about such matters, aren't they?" But if you prefer more highbrow language you can talk about "economies of information and *decision costs" in delegating* complex decisions to sympathetic political figures.

Second, national differences in monetary policy mainly reflect different inflation and exchange rate postures which we are better off without. This is on the assumption that the new Ecu is a good substitute for the D-Mark, which the Germans have tried to ensure by fighting for the independence of the European Central Bank, with precious little help from the British side.

PERSONAL VIEW

Now to the real issues for Europe

By Ralf Dahrendorf

Now that the largely artificial excitements of Maastricht are behind us, it is time to turn to the real issues with which Europe's developed democracies are faced. They have to do with the countries *to the east, south-east* and south of the present European Community – and even the European Economic Area. *These raise at least three inescapable questions.*

The first has to do with migration. Already the issue of asylum seekers and migrants is high on the political agenda of virtually all European countries. The pictures of desiccated and fainting Albanians in Bari, of violence in the suburbs of French cities caused by a nationalist backlash against north Africans, of Poles in Berlin and *Ukrainians* at the Polish border are harbingers of things to come.

Some say it is unlikely that *more than 2m people from* the former Soviet Union will turn west. Two million! And they will be added to the uncounted numbers of east and south Europeans and non-Europeans on the move. The challenge to the social fabric and soon to our political stability is evident.

The theoretical answer to this challenge is obvious: conditions must be improved in the countries of origin of the migrants. If we do not want the people from the poor countries in our neighbourhood, we have *to take the goods which they* produce at home. Keeping both out is a recipe for disaster, as Americans found on their Mexican border. The US has at last drawn the right conclusion, which is the extension of the North American Free Trade Agreement to Mexico. So, to a limited extent, has the EC, by initialling association agreements with Poland, Czechoslovakia and Hungary. The problem is that the agreements in question will not take full effect for many years; they do not measure up to the urgency of the moment.

The second question has to do with the interests of European countries. *Already the* risk is great that in the name of "deepening", the European Community is actually split. *Maastricht has all but* sanctioned the intention of some to move forward more quickly than others. The split will be even *more dramatic if the* Community does not recognise that Germany has an obvious interest in bringing east Europeans *into the European con*struction.

If one assumes that Austria and Sweden will soon be members of the EC, these two countries at least will in their own ways follow the German route. Stockholm is too close to Tallinn and Riga to expect Sweden to focus primarily on the needs of Lisbon and Athens. Thus

The more fortunate countries of Europe have an obvious moral responsibility

anyone who seeks a deepening of European co-operation must look east as well as south.

Then, thirdly, there is the obvious moral responsibility of the more fortunate countries of Europe to do everything in our power to nourish and shelter the tender plant of liberty in the new democracies. Failing *to include at least* Poland, Czechoslovakia and Hungary would not only threaten our apparent stability but also *reveal our freedom to be a* rather narrow and tawdry defence of self-interest.

What is to be done? President Mitterrand has recently turned his attention to the Council of Europe as the core of a different European construction. That is fine so far as it goes, but it does not go very far. Even the European Convention on Human Rights is effective only to the extent to which it is read into national law. Some continue to hope that the Conference on Security and Co-operation *in* Europe will provide a roof for closer co-operation. There is however little sign of an *arrangement which relies on* unanimous approval from Vancouver to Vladivostok offering effective constraints on vio*lence and illiberty within mem*ber states.

There is no getting away from it: the European Commu*nity will have to include the* new democracies, and quickly, if we do not want to pay a high price in external protection, *internal divisions and moral* shame. Indeed, it could be argued that the only realistic deepening of the Community consists in widening it, and widening it soon.

This is not easy. It will require an institutional imagination which was notably absent from the Maastricht affair. For example, it may well be necessary to accept new members at the table of the *Council of Ministers* at the beginning of a very long transition period, that is to dissociate the process of political inte*gration to some extent from* that of economic integration. Clearly, institutions will have to be reconsidered too. A Commission of nine members perhaps? Or (as President Delors suggested recently) just one President who puts together his own "cabinet"?

However, these are secondary questions. Reality will not go away. The implementation of Maastricht can be acceler*ated or delayed* without anyone suffering serious consequences. The inclusion of the new democracies in Europe *can also be deferred, of course.* One must suspect that this will actually happen because the EC has never been very good at recognising real political questions. But in this case the price will be high. We will indeed begin to become an ineffectual fortress, divided within and morally damaged by the betrayal of the liberal values in which we profess to believe.

The author is warden of St Antony's College, Oxford

LETTERS

Insurance for pension plan beneficiaries

From Mr Michael Green.

Sir, Your article ("Weak links in beavy chains", December 5) emphasised that "self-investment" in the UK lacks protection for beneficiaries of company pension plans.

Moves to prevent "self-investment" have been suggested by many parties. In other European countries (particularly Germany and Sweden), "self investment" is an acceptable form of company pension plan investment, through the medium of a balance sheet reserve. Protection for beneficiaries is provided by mandatory insolvency cover.

Further, in the US the Pension Benefit Guaranty Corporation, established under Title IV of the Employment Income Security Act of 1974, covers private defined benefit pension plan participants against the loss of benefits if their plan should be terminated without adequate funded reserves.

In the UK, similar protection can be sought through the Pension Benefit Security Company, which was established specifically to arrange insurance cover to back unfunded benefit promises following the Finance Act 1989.

Michael Green,
Commonwealth &
Community Consultants,
Oak House,
Lower Road,
Cookham,
Berkshire

Questioning the selective rigidity of banking rules

From Mr Alan Routs.

Sir, As a manufacturer (is there anyone else out there?) of specialised equipment exporting 75 per cent of turnover I have recently finally obtained an increase of £50,000 in borrowing facilities from my bank. To do this I have had to invest my own £50,000 in additional capital.

My company's total debt, including trade creditors, is still less than 50 per cent of assets. Our bankers require monthly accounts, lists of debtors and creditors and visit us regularly.

Why are the same rigid rules not applied to the Maxwells of this world? Could it possibly be because I do not employ the services of leading accountants, lawyers and merchant bankers?

I think I should be told.

Alan Routs,
managing director,
Sheen Instruments,
8 Waldegrave Road,
Teddington,
Middlesex

Market forces and road safety

From Mr Terry Arthur.

Sir, the Financial Times has always been a pinko, but this is getting ridiculous. Hot on the heels of Michael Prowse's desert island socialism ("John Stuart Mill's new century", December 2, and admirably treated in a *letter from Mr* Gregory Adams-Tait, December 9), we have a leader ("No way to sell a railway", December 9) on *the difficulties* of privatising British Rail. This claims that road subsidies will prevent a fully privatised BR from making enough money to invest in safety.

The implied sequence is that profits (without safety) provides funds for investing in safety. Surely any self-respecting believer in markets understands the correct sequence, that no safety means no customers means no profits (for investing in safety or anything else). The market price for privatisation must *allow* for safety costs in the first place; if this price is negative, so be it – that is the cost of the road *subsidy, or failure to invest in* safety hitherto, or whatever other government mismanagement you can think of.

The real answer is to privatise the roads as well!

Terry Arthur,
23 St Mary's Street,
Stamford,
Lincs PE9 2DG

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

A costly type of piggyback

From Mr Angus Dalgleish.

Sir, I am amazed the Central Railway Group, for its proposed freight line between Leicester and the Channel Tunnel, intends to use the piggyback freight container system ("UK's first new main rail line for a century planned", December 6).

The Battelle Institute of Geneva carried out a detailed comparative study of energy consumption by different forms of transport. It found that the piggyback system, where containers on their road trailers are loaded on to rail wagons, consumed three to five times more energy than direct carriage on road vehicles, depending on the nature of the terrain.

Mr Andrew Gritten would do better to promote construction of a freight road; it would cost *less, carry more freight and* use much less energy.

Angus Dalgleish,
Shouson Hill,
Ruxbury Road,
Chertsey KT16 9NH

Unwanted core

From Mr D N Odling.

Sir, Selling Assets:

Q. What is the definition of a "core" business?

A. Anything that the board cannot sell.

D N Odling,
26 Albert Square,
Bowdon,
Cheshire

Digging deeper on Japanese ambivalence about apologising for war

From Mr Ronald Dore.

Sir, Stefan Wagstyl ("Japan shrugs off worries over war guilt", December 6) is very interesting on Japanese ambivalence about the need to apologise for the war, but he doesn't dig quite deep enough.

He assumes what one might call the War Crimes Trial view of history – the view of the Anglo-Saxon judges, (but not of the dissenting Indian judge), (a) that the Japanese were guilty of planned and unprovoked aggression, and (b) that one could clearly distinguish between a group who planned aggression, and the rest of the populace whom they dragged into war. Add to that one accompanying myth; that a large body of peace-loving Japanese liberals sought, against oppression, at every stage to curb Japan's aggression.

The whole rhetoric of postwar US-Japan friendship was built on tacit acceptance of those assumptions. They were convenient, for leading politicians could claim that they had belonged to that aggression-resisting group. (Only when an obvious pre-war hawk like Kishi became prime minister were eyebrows raised.)

But whereas they were assumptions taken as self-evident truths by Americans, and vociferously adopted as truths by the Japanese left – spokesmen for the oppressed and misled Japanese masses – they sat uneasily with pre-war establishment liberals, the active cultivators of the postwar American alliance.

They could not easily forget that by November 1941 they, too, had felt that there was no longer any honourable course for Japan but to go to war. To be sure, at every point through the 1930s, they dovishly sought to check the aggressive brinkmanship of the army. But they did not deny Japan's substantive claims for a dominant place in Asia. So when American counter-brinkmanship boxed Japan into a corner, they had no doubt whose side they were on. If one reads the history of Japan's relations with the West from the 1850s onwards, one doesn't have to be a Japanese racist or chauvinist to see why.

Now the Pearl Harbour anniversary provokes demands that those tacit assumptions be made explicit. What should those liberals, and their heirs who identify with them, now do? Start talking honestly about how they actually saw, and see, the war, thereby risking charges of arrogance, or of emotionally reacting to American Japan-bashing? Or pass a cynical Diet motion of apology as yet one more chapter in appeasing submission to American views of the world?

They are in a tough spot. And as long as we react with outrage to any challenge to a simplistic war crimes trial version of history they will remain so.

Ronald Dore,
Department of Political Science,
Massachusetts Institute
of Technology,
Cambridge, USA

FINANCIAL TIMES
Thursday December 12 1991

Japan fears US anger as trade surplus surges

By Robert Thomson in Tokyo

JAPAN'S customs-cleared trade surplus surged last month to an unadjusted $6.55bn from $2.24bn in November 1990, heightening fears in Tokyo of friction with the US and EC over their fast accumulating deficits in trade with Japan.

The Ministry of Finance said exports rose 5.1 per cent to $27bn, while imports fell 12.7 per cent to $20.5bn, highlighted by a sharp fall in imports of luxury goods, oil, minerals and metal products.

November's seasonally adjusted surplus rose 15.7 per cent from the October figure to $7.45bn, with exports declining 0.3 per cent to $27.39bn but imports down 5.2 per cent to $19.94bn.

Stronger exports and slower imports reflect the downturn in domestic demand this year, which has encouraged Japanese companies to increase their imports. The surplus has also been influenced by currency fluctuations and year-earlier comparisons to the Gulf crisis period.

Japan's surplus with the US was $3.59bn, slightly higher than the $3.56bn of the previous November, as exports to the US increased 1.4 per cent to $8.19bn, and imports were 1.8 per cent higher at $4.60bn. Japanese officials are concerned that the still rising bilateral surplus will be a source of embarrassment next month when President George Bush visits Tokyo.

Mr Kozo Watanabe, the minister of international trade and industry, told executives of Japan's car industry yesterday that they should increase their ties with US carmakers in an attempt to reduce trade friction. Meanwhile, Japanese car exports rose 4.3 per cent during November.

The surplus with the EC continued to rise, with a 16.4 per cent fall in imports from the EC to $2.75bn and a 3.7 per cent decline in exports to the EC at $4.6bn. Finance ministry officials blamed the sharp fall in imports on the collapse of Japan's "bubble" economy and the accompanying collapse of demand for luxury goods, including paintings, imports of which fell 88.6 per cent on the same month last year.

Japan's textile exports rose 13.3 per cent, while exports of precision instruments increased 9 per cent, metal products were 7.3 per cent higher, and electric machines rose 6.8 per cent.

The strongest growth in exports was to the Middle East, up 54.3 per cent, reflecting the impact last year of the Gulf war on Japanese exports.

During November, Japan's exports to Asia rose 9.5 per cent, while imports from the region fell 7.8 per cent.

Miyazawa wilts in the political heat

The Japanese premier is in trouble after just six weeks in office, writes **Stefan Wagstyl**

Mr Kiichi Miyazawa, the Japanese prime minister, is in serious political trouble after just six weeks in office.

He came to power pledging to increase Japan's contribution to the international community, to keep Japanese politics clean, and to bring a sense of direction to the government.

In spite of his best intentions, he has faltered badly on all three counts. While Mr Miyazawa will have opportunities to recover, his enemies in the ruling Liberal Democratic party are already asking whether he will last his full two-year term in office.

Mr Miyazawa's most significant failure has been to win parliamentary approval this year for a bill authorising the despatch of Japanese troops for United Nations peace-keeping operations.

The legislation stirred deep doubts among Japanese, with many people questioning whether the bill would infringe the country's peace constitution. After much deliberation, the LDP last month forced the bill through a key committee in the Diet's (parliament's) lower house with the support of the centrist Komei party.

The intention was to push the legislation through the lower and upper houses as soon as possible. But the plan backfired when some rank-and-file LDP and, especially, Komei members protested at the government's rough-house tactics.

Kiichi Miyazawa: failed to sense rank-and-file unease

To avoid a public debacle, they agreed to pass the bill through the lower house on the understanding that it would not go through the upper house this year. The decision was formalised on Tuesday night when the Diet agreed to extend the current session to December 21 – not enough time to debate the bill.

Mr Toshiki Kaifu, who preceded Mr Miyazawa and also fought hard for the bill's passage, said in an interview this week it was "very, very regrettable" that the legislation had failed. A foreign ministry official said Japan's claims that it was raising its contribution to the international community would now seem hollow.

"What will we have to show Mr Bush when he comes next month?" he asked. The US president is due to visit Japan in early January on his first official trip since taking office.

Mr Miyazawa's critics in the ruling party acknowledge that the controversial bill had been on the government's programme long before he took office. But they blame him for failing to sense until too late the depth of unease among rank-and-file members.

By rights, other LDP bosses – including Mr Noboru Takeshita, another former prime minister – should share the opprobrium since they supported the move to railroad the bill. But they can hide in the back rooms of Nagatacho, Tokyo's political district, while Mr Miyazawa is forced to stand in the public eye.

Opposition parties also singled out the prime minister for personal attack over his involvement in the Recruit affair. In spite of Mr Miyazawa's minor role in the 1988-89 scandal, he had to submit to the Diet new documents about his involvement when he became prime minister.

Mr Miyazawa resigned as finance minister in 1988 after admitting that one of his aides had received cut-price stock offered by Recruit, a publishing company. However, the newly-filed documents show that another aide also handled the transactions.

Opposition politicians claim this casts doubt on Mr Miyazawa's assertion that only one aide knew about the deals.

Other pressures are bearing on the government. Leading industrialists want to see action to stop the slowdown in the economy. They want ministers to press the Bank of Japan to lower interest rates and the finance ministry to boost government spending.

Mr Miyazawa, who first sat in the cabinet in 1962, has long experience in government, including his spell as finance minister. Unlike many other Japanese politicians, he also has strong views on policy: he has, for example, for many years supported a more active role in the international community for Japan.

But he has rarely been fond of the nitty-gritty of Japanese politics – of the tortuous negotiations between the LDP's factions and between the LDP and other parties.

This failing has long limited his effectiveness as a politician. It is now limiting his effectiveness as prime minister.

Major out to crush party dissent after Maastricht

By Philip Stephens, Political Editor, in London

MR John Major, the British prime minister, moved swiftly yesterday to capitalise on the deal he had struck at the Maastricht summit, threatening to crush potential opposition from his predecessor Mrs Margaret Thatcher and others in the Conservative party.

As he insisted that the European Union accord safeguarded Britain's national interests, cabinet colleagues launched an intensive campaign to settle once and for all the row over Europe which has threatened his party's general election prospects.

In a statement to the House of Commons Mr Major said there would be a two-day debate on the outcome next week. The announcement followed a meeting with Mr Chris Patten, the party chairman, and Mr Richard Ryder, the chief whip, where it was agreed that an early debate would deny opponents time to organise a revolt.

Conservative members of parliament will be under firm instructions to vote for the package, a point which Mr Major and members of the cabinet will underline in an intensive round of meetings over the next few days.

Mr Norman Tebbit, the former party chairman, indicated that he would vote against the deal, but other "Euro-sceptics", as opponents of further European union have come to be known, indicated they would fall in behind the prime minister. Mrs Thatcher gave no indication of her intentions, although her vehement opposition to any single currency agreement will make it difficult for her to back her successor.

The initial euphoria among most Conservative MPs about Mr Major's handling of the summit brought a burst of speculation that the summit might provide the springboard for a February general election, but the idea was discounted by ministers.

Mr Major said that the treaty on economic and political union "safeguards and advances our national interests". It was "a good agreement for Europe and for the United Kingdom".

In a confident performance, he vigorously defended his insistence on an opt-out clause from plans for a single currency and his refusal to give the community any additional role in regulating working conditions in Britain.

His successful battle to prevent the application of the Social Chapter won strong applause from Conservative MPs, as did his insistence that the treaty would not impinge on Britain's right to set its own foreign and defence policies.

Brushing aside the dates set in the treaty for the creation of a single currency, Mr Major said the economic convergence conditions agreed at the summit made it "highly uncertain" when such a currency would be created. In unusually strident language he added that if he had agreed to the social provisions it would have handed over "the government of this country to trades unions abroad".

EC heads take home the summit message

Continued from Page 1

was an attempt to thwart complaints that he had failed to advance sufficiently towards a politically united Europe. This had been the Chancellor's key condition for the politically controversial step of agreeing to give up control over the D-Mark.

The Federation of German Industry (BDI) issued an unusually brusque critique of Mr Kohl's summit diplomacy. Although the EC accord was "an important step", the BDI said that "the goal of simultaneously furthering both monetary and political union has not been attained."

European defence ministers gathering in Brussels, meanwhile, began to grapple yesterday with the implications for European defence policy.

Ministers from European Nato allies – not including France – met ahead of talks today and tomorrow with US and Canadian counterparts in Nato's Defence Planning Committee. Their deliberations included a discussion of earmarking forces for a revamped Western European Union.

Mr Fernando Nogueira, the Portuguese defence minister who chairs the Eurogroup of Nato allies, emphasised last night that it would be "a phased process."

In Strasbourg, European parliament deputies gave the deal a mixed reception. They only partly bore out the prediction from Mr Ruud Lubbers, the Dutch Prime Minister, that the Maastricht treaty was bound to come under fire from the Euro-assembly. Many MEPs welcomed the new rights agreed for parliament - but others predictably charged that they did not go far enough.

Spanish politicians focused on Britain's diplomatic success in fighting off Euro-federalism. "We are reasonably satisfied, but with the bitter taste in the mouth for not having managed to include Britain in all the steps taken towards building a new Europe", said Mr Carlos Westendorp, Spain's secretary of state for EC affairs.

"The driving force behind this summit was Germany and the victory has been Britain's", said Spanish opposition leader Jose Maria Aznar, of the centre-right Popular party.

Ruling could save pensions industry £50bn

By Norma Cohen and Andrew Hill

THE European Community has quietly approved a protocol to the Treaty of Rome which could save the European pensions industry billions of pounds that it might have had to pay out in an effort to provide backdated equal pension benefits to men and women.

The protocol, part of the political agreement at the Maastricht summit, says companies will not be required to provide equal pension benefits for men and women for any period of service before May 17, 1990.

Approval of the protocol, which had been sought by the Dutch and UK governments, surprised the pensions industry, which had not expected a political settlement. The £50bn estimate covered the cost of providing enhanced benefits to those who had retired some years earlier.

The Dutch had received a cool response to their proposal for such a protocol at pre-Maastricht talks two months ago.

Government leaders were expected to leave the matter of retrospectivity to be decided by the European Court next summer when the court was scheduled to hear a case brought by trustees of the pension fund of Coloroll, a British company, along with two other cases involving retired people in Germany and the Netherlands.

"This is a great day for British industry to have got this case off our backs," said Mr John Cunliffe, partner at McKenna and Co, who is representing the Coloroll trustees.

The protocol agreed at Maastricht relates to an earlier European Court ruling in the case of Barber v. Guardian Royal Exchange given on May 17 1990 which said that employers may not discriminate between men and women when paying salaries and that pensions are a part of salary.

Because the UK and several other European countries set higher retirement ages for men than women, employers faced substantial costs in raising men's benefits to equal those of women.

In the UK, 80 to 90 per cent of all pension payments are made to men, so that the cost of equalising retrospectively would have been especially significant.

Estimates of the amount of additional payments ranged from £3bn to £50bn, depending on whether employers would have been expected to equalise pensions for current retirees or simply enhance benefits for a portion of future retirees.

British and German industry might have had to pay up to £50bn each while in the Netherlands, retrospection could have cost local industry up to £30bn.

While Belgium and Ireland faced costs of up to £15bn and £500m respectively, according to actuaries estimates.

The protocol pre-empts the European Court ruling and provides the narrowest – and least expensive – interpretation of retrospectivity from the employers point of view. Thus, current pensioners will not be eligible for any enhancement in benefits.

A man halfway through his working career will be eligible for improved pension benefits only for the period beginning May 17 1990.

In the UK, employers have responded to the Barber judgment mostly by raising the retirement age for women to 65 to equal that of men.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	F	11	52
Algiers	S	15	59
Amsterdam	S	1	34
Athens	Sn	3	37
Bahrain	S	25	77
Bangkok	F	32	90
Barcelona	R	9	48
Beirut	F	16	61
Belfast	Fg	-1	30
Belgrade	S	-4	25
Berlin	S	-2	28
Biarritz	S	10	50
Bombay	S	30	86
Bordeaux	C	7	45
Boulogne	C	-1	30
Brussels	C	-2	28
Budapest	S	2	36
Buenos Aires	R	25	77
Cairo	F	18	64
Cape Town	S	23	73
Caracas	C	26	79
Casablanca	F	18	64
Chicago		–	–
Cologne	S	1	34
Copenhagen	S	1	34
Corfu	F	5	41
Dallas		–	–
Dublin	S	3	37
Dubrovnik		–	–
Edinburgh	S	-2	28
Faro	S	17	63
Florence	S	3	37
Frankfurt	S	0	32
Geneva	C	1	34
Gibraltar	C	16	61
Glasgow	Fg	-4	25
Helsinki	C	0	32
Hong Kong	S	25	77
Innsbruck	S	-3	27
Inverness	S	4	39
Islamabad	C	18	64
Istanbul	Sn	1	34
Jakarta	R	29	84
Jersey	S	1	34
Johannesburg	F	24	75
Lima	C	23	73
Lisbon	S	13	55
London	S	1	34
Los Angeles	C	14	57
Luxembourg	C	-3	27
Madeira	R	19	66
Madrid	F	9	48
Majorca	F	13	55
Malaga	F	15	59
Malta	C	11	52
Manchester	S	-2	28
Manila	C	29	84
Melbourne	F	17	63
Mexico City	F	22	72
Miami		–	–
Milan	S	-2	28
Montreal	C	4	39
Moscow	C	-3	27
Munich	S	-6	21
Nairobi	C	20	68
Naples	S	7	45
Nassau	F	28	82
New Delhi	S	25	77
New York	S	6	43
Nice	S	9	48
Nicosia	F	14	57
Oporto	F	13	55
Oslo	S	-2	28
Paris	F	0	32
Peking	S	-1	30
Prague	S	-1	30
Reykjavik	R	5	41
Rhodes	S	10	50
Rio de Janeiro	C	37	99
Rome	F	6	43
Salzburg	S	-6	21
San Francisco	S	7	45
Seoul	S	-1	30
Singapore	F	29	84
Stockholm	S	3	37
Strasbourg	S	-1	30
Sydney	R	17	63
Taipei	F	23	73
Tangier	C	17	63
Tel Aviv	S	16	61
Tenerife	Dr	20	68
Tokyo	F	18	64
Toronto	C	3	37
Tunis	F	10	50
Valencia	F	12	54
Venice	S	4	39
Vienna	S	-3	27
Warsaw	C	-3	27
Washington		–	–
Zurich	C	-5	23

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

THE LEX COLUMN

Sterling opts out of a crisis

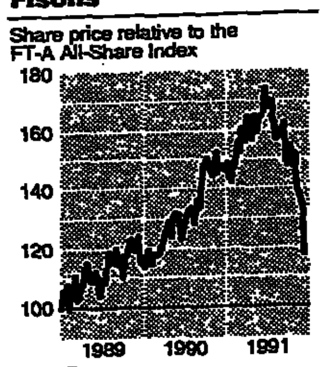
For the beleaguered Tory government, not the least gratifying aspect of the Maastricht deal is that the whole thing is out of the way without the feared assault on sterling. Thanks partly to Mr Gorbachev and partly to the Maastricht premium deserting the D-Mark, the German currency weakened slightly yesterday morning. But turmoil in the USSR is nothing new. The underlying fundamentals point to polarisation between the dollar and the D-Mark with sterling uncomfortably in the middle.

Not only is the weak US economy continuing to give cause for concern; yesterday's 2 per cent fall in the Japanese stock market has rekindled expectations of an interest rate cut there. That is likely to drive funds towards the D-Mark as long as the Bundesbank remains set on a tight money policy.

It may well be that sterling could ride out a quarter-point rise in the German Lombard rate before Christmas, especially since the general assumption thereafter would be that German rates had peaked. Even yesterday's recovery, however, still left the British currency little more than 2¼ pfennigs above its effective floor against the D-Mark. That would appear to rule out the prospect of any post-Maastricht interest rate cut at home. Political uncertainty is still too a large factor for the exchange rate. Indeed, insofar as Mr Major's performance at Maastricht has encouraged speculation about an early election, the political risk in the exchange market looks the more immediately acute.

FT-SE Index: 2,380.2 (-11.8)

Fisons



Source: Datastream

Fisons

Even in the context of Fisons' accident-prone history, yesterday's gruesome announcement leaves the company with much to explain. Exasperated shareholders will want to know why the loss of £40m worth of US drug sales is costing the company £65m in profits this year. They may also wonder why Fisons is taking 18 months to raise manufacturing standards on two of its main products to the levels required by the largest pharmaceutical market in the world.

Fisons' share price has been weakening for six months as the scale of the disaster became gradually apparent. But there has been more to it than that. Fisons' management style, marked by occasional secrecy and apparent self-satisfaction, is more respected than trusted in the market. The company now has to convince investors that the problem is indeed isolated, and that profits, having fallen to perhaps £185m this year, can rebound to £250m in 1992. Considering that Opticrom, at least, is unlikely to regain its US market position before 1993, this is taking a good deal on trust.

At yesterday's 330p the shares are on 16 times earnings, which for a basically fast-growing drug company is arguably cheap. Whether the market's confidence can be quickly regained is another matter. It is worth recalling that £65m is equal to 28 per cent of Fisons' profits last year. The Allied-Lyons foreign exchange loss, which caused the resignation of the finance director and the early retirement of the chairman, was equal to 26 per cent of profits. At the very least, it might be asked whether Mr John Kerridge, the architect of the group's revival in the 1980s, should still combine the posts of chairman and chief executive.

Accounting

The UK Accounting Standards Board's proposals on the treatment of capital instruments would have an embarrassing impact on many a balance sheet and profit and loss account. In effect, the rules require companies to come clean about the nature and costs of their capital. Tighter distinctions between equity and other instruments which involve direct or potential liabilities should make a company's true financial position more transparent. In particular, hybrid instruments such as auction market preferred shares will have to be broken out from shareholders' funds as non-equity interests. Convertible bonds will simply be classified as liabilities until any conversion actually takes place. While gearing calculations will doubtless continue to be fudged, the effect will at least be easier to spot.

Take the example of Reckitt & Colman, which last year raised £200m of convertible capital bonds to help finance a large US acquisition. It classified the instruments as equity and its 1990 balance sheet looked conventionally solid. Had the convertibles instead been classified under the proposed ASB rules on the other side of the balance sheet, the company's total net assets would have been a mere £436m, including £573m of brand valuations, against net debt of £558m. For some investors, at least, that might have put the acquisition in a very different light.

BBL

The Belgian market is not convinced by Mr Albert Frère's assertion that his stake in Banque Bruxelles Lambert (BBL) is not up for sale. A 10 per cent jump in BBL's shares on return from suspension yesterday reflected the notion that Mr Frère's Groupe Bruxelles Lambert (GBL) will shortly pass its 11 per cent holding to Internationale Nederlanden Groepen as the prelude to a bid.

Investors dabbling in the dark corners of Low Countries' finance play a dangerous game. But there is reason to believe BBL is vulnerable on several fronts. GBL, for example, could deliver more than 20 per cent of the Belgian bank with its French allies, and with BF30bn of cash disposals in the last 18 months is clearly in a divesting mood. At the very least exploratory talks with Internationale Nederlanden have taken place, with some suggestion that contacts may have gone a lot further. Meanwhile BBL's own record in the last three years - losses in French and Australian stockbroking, as well as in London property - will be giving shareholders cause for concern.

On a strategic level, BBL will probably get swept up by the current fashion for bank/insurance links. In this respect Royale Belge, controlled by France's UAP, may be a more acceptable partner. No doubt Mr Frère would extract a proper price from this quarter too, but the danger is that it might be done without a full bid. Minority investors look to be winning the battle at Wagons-Lits, but the war for equal treatment is far from over.

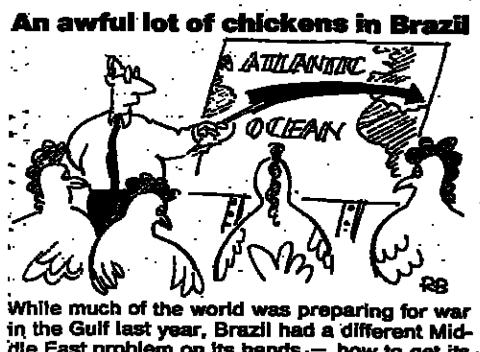
FINANCIAL TIMES
COMPANIES & MARKETS
Thursday December 12 1991

INSIDE

Disappointing year for Granada

Granada, the UK leisure, television and computer services group, yesterday announced the expected sharp drop in profits to £57m ($102.60m) compared with more than £120m pre-tax in 1990. Mr Alex Bernstein, chairman (left), conceded yesterday: "Clearly the results show that we had an extremely disappointing year." **Page 23**

An awful lot of chickens in Brazil



While much of the world was preparing for war in the Gulf last year, Brazil had a different Middle East problem on its hands — how to get its frozen chickens safely into Saudi Arabia. Saudi Arabia is the country's biggest customer, followed by Japan, and Europe. **Page 26**

National Semi ahead

National Semiconductor, the struggling Silicon Valley computer chip-maker, unveiled improved profits for its second quarter in spite of reduced revenues. **Page 18**

Food for thought

Defensive stocks have attracted attention a number of times in 1991, a year which began with investors nervous of European equities in the approach to the Gulf war. As Christmas approaches, there is an argument that shares in the big three European food groups, Nestlé of Switzerland, Unilever of the Netherlands and BSN of France, are worth exploring on more positive grounds. **Back Page**

Realising a dream

Just over a year after the collapse of Italy's Enimont chemicals joint venture, Mr Sergio Cragnotti, its Ferruzzi-appointed managing director, has realised his dream of creating his own merchant bank. **Page 19**

Lasmo fight stepped up

Ultramar

Ultramar, the oil and gas group, stepped up its defence against the hostile bid it faces from Lasmo, a rival oil group, with a further circular to shareholders a week before the bid closes on December 18. **Page 23**

Australia to quit bauxite group

The Australian government is to leave the International Bauxite Association, the producers' group it helped create 17 years ago. The departure of Australia, the world's leading producer of bauxite (from which aluminium is made) will force the remaining nine members of the association to reshape the group. **Page 26**

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				Beghin-Say	550	+	13
Rises				Cetelem	576	+	11
Industrie Werke	272	+	8	Valeo	535	+	21
Falls				**Falls**			
Asko	582	−	13	Cogifi	305	−	25
Degussa	282.5	−	7.5	Geophysique	466	−	19
Hertie	365	−	10	**TOKYO (Yen)**			
Kaufhof	433	−	14	**Rises**			
Wella Prf	558	−	12.5	Kyokuto Boeki	820	+	50
NEW YORK ($)				Toyo Ink	903	+	100
Rises				Toyo Sanso	1640	+	200
National HMO	$4\frac{1}{8}$	+	$\frac{5}{8}$	**Falls**			
National Semi	6	+	$\frac{1}{2}$	Nippon Synth	842	−	121
Falls				Shikoku Bank	641	−	59
Borland	70	−	5	Toho Zinc	835	−	56
Deere	$40\frac{3}{8}$	−	$2\frac{5}{8}$				
Nucor	$71\frac{1}{2}$	−	$4\frac{3}{8}$				
PARIS (FFr)							
Rises							
Accor	605	+	8				

New York prices at 12.30.

LONDON (Pence)				Beauford	45	−	13
Rises				Fisons	330	−	47
Aitken Hume	39	+	4	Ladbroke	202	−	15
Blick	327	+	22	Lonrho	159	−	7
Bulmer (HP)	272	+	12	Low & Bonar	205	−	13
ERF	163	+	23	Pepe	107	−	7
Feedback	20	+	5	Shandwick	42	−	$10\frac{1}{2}$
Inchcape	401xr	+	21	Ultramar	254	−	11
Ramco Oil	75	+	4	Union Discount	205	−	20
Rugby	172	+	6	Utd News	342	−	25
Sec Archives	272	+	38	Wescol	18	−	4
Falls							
Aegis	102	−	8				
Baird (Wm)	197	−	22				

Paul Abrahams on the UK pharmaceutical group's survival chances

Shares slip after profits warning

FISONS, the UK pharmaceuticals and horticultural group, yesterday warned that a ban on two of its products in the US would reduce its profits by £65m ($117m), bringing the group's 1991 pre-tax profits below the £320m achieved last year.

The group's shares fell 47p to 330p in heavy turnover after dipping to a low of 311p.

The company warned that the drugs, Opticrom, a hayfever medication, and Imferon, a blood product, would only be relicensed by the US Food and Drugs Administration during the first quarter of next year. Sales would continue to suffer until the end of 1992, said the company. It had previously told analysts the medicines would be available this autumn.

The two drugs had US sales of about £40m a year before the FDA banned their import when it became concerned about production quality. Last year, Fisons's US pharmaceuticals operations generated more than 50 per cent of the whole division's sales and more than 55 per cent of its profits.

Fisons said the delay in supplying its products would have a material effect on the company's profits which are geared to the final quarter. The loss of revenues from the two medicines during 1991 was £33m.

In addition, upgrading UK production facilities to supply the US market would cost a further £20m.

The company added that disruption to other markets for Opticrom in spring 1992, the peak season for hayfever sufferers, would cost a further £15m.

Sales would recover to pre-disruption levels once the products were relaunched, claimed Fisons. It said the loss of profits would not affect its dividend or research and development expenditure, currently running at £100m a year.

The company said there was a long list of companies in the US that had been hit by increased enforcement of quality control regulations. This had occurred following a series of scandals involving generic, non-patented, drugs.

Analysts said they were not surprised by the announcement, except for the scale of the losses which were much worse than expected.

Mr Andrew Porter, of Nikko Europe, said investor confidence was at an all-time low and will take some time to rebuild.

Lex, Page 16

US ban on drug imports causes feverish times at Fisons

Misjudging red tape is an expensive business. For Fisons, that miscalculation could cost the ultimate price – its independence.

Under the guidance of its forceful chairman, Mr John Kerridge, Fisons was transformed from an unprofitable fertilisers company, which in 1980 was on the Bank of England's critical list, into one of the best performing stocks of the past 10 years. Between 1980 and this year, the group's market capitalisation increased from £41m to £2.3bn ($4.1bn). Yesterday the City of London fell out of love with the company.

The reason for the estrangement was the company's announcement it had lost £65m since the US Food and Drugs Administration decided to ban the import of two of its products.

Fisons' revelation shocked analysts who had been promised in September by its management that two of its three best selling products in the US, Opticrom and Imferon, had been cleared by the FDA and would be available again during the autumn.

City of London analysts were last night downgrading profit forecasts and changing their recommendations from hold to sell. But they were also totting up the break-up value of the company. One analyst reckoned Fisons could be worth £2.6bn.

Hostile bids are almost unknown in the pharmaceuticals sector, where companies traditionally have high multiples and there is the danger of alienating essential scientists during a messy takeover. Nevertheless, during the autumn there was speculation that Astra, the Swedish pharmaceuticals group, could be interested in Fisons.

Fisons's present difficulties started in October 1989 when the FDA asked for Opticrom, a hayfever medication, to be withdrawn following a disagreement over testing specifications.

The following January, Imferon, a blood product, was also withdrawn, after the FDA discovered the UK company's manufacturing processes did not comply with specifications. This autumn, when the group announced its half-year profits, it said the problems of the ban to that point had cost £10m.

The company now claims it has run foul of increasingly rigorous standards set by the FDA, which has been stung into action by scandals involving the generic, non-patented, US drug market. Mr Kerridge said earlier this year that the FDA had become "enormously pedantic".

According to the company, the delay in clearing the two products was caused by a dispute between the FDA offices at Washington and Buffalo, where the products are imported. The company added that undertakings made by Washington that imports could be resumed had been contradicted by the local bureau. The FDA said yesterday it could not comment on confidential commercial information.

John Kerridge - transformed Fisons

The dispute between the two offices, and the tightening of quality inspection rules, could not have been predicted, said Dr Peter Woods, Fisons's director of corporate affairs, yesterday.

Other pharmaceutical groups have had similar difficulties with higher quality standards, but those with manufacturing plants in the US have been allowed to continue production under FDA supervision, said Dr Woods.

Fisons has been particularly hit because Imferon is manufactured in Manchester and can therefore not be supervised by the FDA.

The company is also vulnerable because it does not have dual sourcing although it is planning to set up a production line in Le Trait, Normandy, said Dr Woods. A new divisional technical director has been appointed and additional technical staff taken on. For the long-term, the company is also considering setting up production in the US.

Analysts are unimpressed. "It's inconceivable that any of the blue-chip companies like Glaxo, SmithKline Beecham or Wellcome would have got into similar difficulties," said one analyst. "They would have dual-sourced all their important products. There wouldn't even have been a question of trying to foresee the problem or not."

Whether the present difficulties could have been avoided or not, the effect on Fisons's future could be considerable. Although the company expects to have the two products back on the market by early next year, it warned that sales would continue to suffer during the first six months and it would be towards the end of next year before "full normality" would be restored.

Meanwhile, the future of the present management is in question. Analysts said Mr Kerridge's autocratic style of management had been appropriate during the 1980s while the company was transformed into a pharmaceuticals group but question whether he is the right man now.

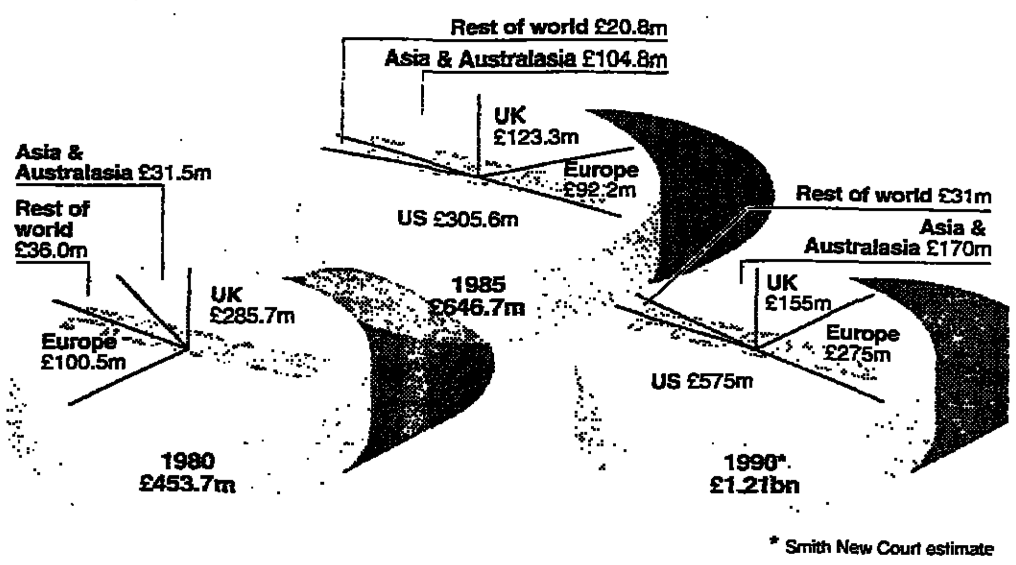
"It's far from clear whether the group has the critical mass to cope with the increasingly high costs of marketing and research and development which are likely to occur during the 1990s," said one analyst. "Kerridge wants to go it alone – that's probably the wrong strategy."

Part of Fisons's problem is that some of the the patents for Intal, its most profitable product, will expire over the next two years. Although the company has products in the pipeline to replace Intal, these will not come on stream until the mid-1990s. Even though it is spending £100m a year on new drugs, the company on its own simply does not have the resources to accelerate their development.

Yesterday, the company's management maintained its independent line. "We might be interested in looking at co-marketing or commercial licensing agreements," said Dr Woods. "But we won't be jumping into bed with anyone. We have good products in good markets with good prospects. We certainly want to maintain our independence."

Fisons's problem with the FDA has brought that independence into doubt. Mr Kerridge will now need to give some convincing explanations to analysts and shareholders.

Fisons: worldwide sales



* Smith New Court estimate

GM warns of large shake-up charge

By Martin Dickson in New York

GENERAL Motors, which analysts expect to lose more than $2.5bn in 1991, said yesterday it would unveil a "comprehensive programme to improve profitability" next week and warned this would lead to a large charge against earnings.

It gave no details of the charge, beyond saying it was expected to be less than the $2.1bn taken in the third quarter of 1990. Next week's measures are expected to include further job losses and possible plant rationalisations.

GM, the world's largest vehicle manufacturer, has been under pressure to cut manufacturing costs in North America where recession and loss of market share over the past decade has left it with big overhead and labour costs.

It has carried out cost cutting, including eight plant closures, over the past four years, but analysts estimate its productivity is still below that of US rivals Ford and Chrysler and Japanese plants in the US.

Mr Robert Stempel, GM's chairman, said yesterday the programme, endorsed by the group's board on Monday and to be made public on December 18, included "major actions related to GM's North American operations".

Mr Stempel has said GM wants to operate its North American plants at capacity by the end of 1992, but Wall Street analysts remain sceptical it will be prepared to take the tough action on jobs and plant closures this implies.

Mr Stempel, chairman since 1990, has also made clear he wants to avoid the plant closures that characterised the chairmanship of his predecessor, Mr Roger Smith.

Mr Stempel has been seeking to alter the GM culture from one of management-worker confrontation to a more Japanese-style framework based on co-operation.

Ford Motor, the second largest US manufacturer, yesterday forecast that US total demand for vehicles would rise from about 12.6m units this year to about 13.5m in 1992. But it said the market would not be robust because of the nation's economic problems.

Ford has lost $1.78bn in the first three quarters of this year and expects losses in the final quarter. Mr Philip Benton, Ford president, said he expected better results in 1992, but did not predict a return to profitability.

In morning trading on the New York Stock Exchange, GM shares fell $⅝ to $27⅞, while Ford dipped $⅝ to $23⅞.

UK watchdog casts doubt on future of integrated firms

By Richard Waters in London

THE STRUCTURE of London's integrated securities houses, created during Big Bang five years ago, is questioned for the first time by a discussion paper to be published by City of London regulators today.

The paper, from the Securities and Investments Board, questions whether brokers, paid by investors, should be part of the same firm as marketmakers, the market professionals from whom brokers buy or sell shares. Breaking down barriers between the two was at the heart of Big Bang.

The SIB paper is directed at a narrow area of broking, accounting for around 15 per cent of share trading in the UK. However, in practice it throws open the question of whether integrated firms should exist.

A senior executive at Warburg Securities, a leading City integrated house, warned last night: "They are effectively saying we aren't allowed to do any agency [broking] business."

The SIB's paper concerns the use of "soft" commissions, under which an investor agrees to aa certain amount of business each year with a broker in return for the broker paying for certain services, such as the investor's subscription to an investment database.

Traditionally, soft commission brokers "repay" between 50 per cent and 55 per cent of commissions in this way. However, a price war begun last year by integrated securities houses has seen brokers return up to 83 per cent of commissions to investors.

This prompted complaints of predatory pricing from independent brokers such as Hoenig and Thamesway (a subsidiary of Barclays de Zoete Wedd). Integrated houses can only offer these cut-price terms, they argue, because they are cross-subsidising their broking business from their marketmaking activities.

The SIB's decision a year ago to allow the business to continue unchecked, and a decision by the Office of Fair Trading not to take the matter further after a preliminary inquiry, suggested the issue would not be taken further. However, the SIB is now to re-open the matter.

Among alternatives in its paper is that integrated firms should be barred from undertaking soft commission business.

By implication, this questions whether they should be allowed to undertake any broking activity, since the same questions of cross-subsidisation arise. Few brokers make a profit on the standard 0.2 per cent commission paid on equity trades in the UK.

A second option is to allow independent brokers to direct business to particular marketmakers which pay them for the order flow. This raises questions about the nature of the broker's relationship as an agent for an investor, under which it has an obligation to secure the best deal in the market.

Oslo launches rescue of Fokus Bank

By John Burton in Oslo

THE NORWEGIAN government yesterday took temporary control of Fokus Bank, the country's third-largest bank, to give it time to restructure its operations.

This is the latest intervention by the state this year to save the country's biggest banks from collapse after big losses due to bad loans.

In return for government assistance, Fokus has agreed to cut operating costs by 20 per cent by the end of 1992 and reduce its risk-weighted balance by almost a third from NKr37bn to NKr25bn ($507m).

The rationalisation announced yesterday will include Trondheim-based Fokus concentrating activity along the western Norwegian coast, while selling its branches in the Oslo region.

It said it had a stronger presence in the coastal region than its competitors, which have concentrated activities in the main cities.

The bank will also sell its finance and property subsidiaries and most of its insurance operations. Fokus, which reported a net loss of NKr1.3bn during the first nine months of 1991, said it would establish a central credit risk evaluation office to tighten supervision of lending by its regional branches.

Future lending will concentrate on small and medium businesses and agricultural co-operatives as well as municipalities and local authorities.

The takeover of Fokus involves the state bank guarantee fund providing a new share capital injection of NKr475m, while writing off the bank's present share capital and a smaller part of the NKr2.15bn in preference capital the bank received from the state earlier this year.

However, the bank will gradually be privatised. The state will offer former shareholders an option to re-acquire shares during the first half of 1992. The extent of the buying option, expected to involve initially a minority holding in the bank, and the value of the share offer will be decided once the 1991 results are announced.

National Semiconductor in second-quarter advance

By Louise Kehoe in San Francisco

NATIONAL Semiconductor, the struggling Silicon Valley computer chip-maker, unveiled improved profits for its second quarter despite reduced revenues.

National reported net earnings of $5.9m, or 3 cents a share, a significant improvement over net earnings of $3.5m, or 1 cent, last time. Sales for the quarter to November 24 were $413.2m, down from $427.4m in the corresponding period last year.

The company attributed the revenue decline to continuing softness in the personal computer and peripherals markets, as well as to continued slow demand in other market segments.

In the first half, National reported a net loss of $162.1m, or $1.61 a share, on sales of $824.2m. Results for the first half include a restructuring charge of $149.3m.

In the first half of fiscal 1991, the company recorded a net loss of $162.0m, or $1.62, on sales of $870.1m. The results for the period also included a restructuring charge of $141.2m.

Continuing improvements in manufacturing efficiencies enabled National to achieve a profitable second quarter, said Mr Gilbert Amelio, National Semiconductor president and chief executive.

"The company is tracking well toward the targeted break-even point of $400m [revenues for] the third quarter of fiscal 1992," he added.

"We now expect business conditions to remain soft through the first quarter of calendar 1992 and that our fiscal third-quarter revenues will exhibit the usual seasonal slowdown," Mr Amelio said.

"Beyond that, we see no fundamental change in demand in the marketplace, although we are seeing some strength in selected market segments, such as local area networks."

● The Semiconductor Industry Association, a US semiconductor industry trade group, released its latest order and sales data for the US market.

The closely watched "book-to-bill ratio", the industry's key market indicator, rose to 1.0 for November as a result of a 5.7 per cent increase in new orders, the industry group said.

A book-to-bill ratio of 1.0 means that for every $100 worth of products shipped, manufacturers received $100 worth of new orders. The ratio stood at 0.96 per cent in October and has been below 1.0 since July, reflecting the US semiconductor industry's broad decline.

Confusion on Argentine sell-off

By John Barham in Buenos Aires

POTENTIAL investors in Argentina's first privatisation flotations are becoming increasingly confused by apparently conflicting information supplied by the government and the company concerned, Telefonica de Argentina.

The shares went on sale this week in Argentina's first major foray into the world equities market. The government hopes to raise at least $585m by offering local and overseas investors its remaining 30 per cent stake in Telefonica, one of the two telephone networks partially privatised last year. The offer closes tomorrow.

Two points are bothering investors. First, some complain the government has not explained clearly that they will be entitled to a one-for-eight stock split.

This is because not all the assets, worth an estimated $320m, have yet been legally transferred to it. Once this is done, Telefonica will issue an extra 1.6bn shares on a pro-rata basis to all shareholders.

The discrepancy had led to fears the government was offering fewer shares than advertised. Furthermore, the final version of the sales prospectus was only made available on Monday, adding further to the confusion.

Second, Telefonica has published conflicting data over the number of telephone lines in service. While the prospectus says it added only a net 77,000 new lines in the 11 months to September 30, Telefonica states in a current local advertising campaign that it has added 115,000 lines. This is important, because the number of lines in operation allows analysts to forecast the company's revenues and profitability.

Some analysts now feel that, given the faulty information, some poor sales presentations and a high minimum price being demanded by the government, the issue may be less successful than originally hoped for.

Xerox takes charge of $175m for lay-offs

By Patrick Harverson in New York

XEROX, the US document processing group, yesterday announced it would be taking a pre-tax write-off of about $175m in the fourth quarter of this year to cover the cost of reducing its 101,000 worldwide workforce by 2,500.

The lay-offs among the company's document processing staff will be completed by the middle of next year, and are aimed at saving roughly $150m in 1992 and $200m annually in subsequent years.

The reductions will be achieved through normal attrition, voluntary and, in some cases, compulsory redundancies.

Mr Paul Allaire, chairman and chief executive of Xerox, said the cost-cutting measures were aimed at improving efficiency and making the document processing business more responsive to customers. He also said "the uncertainty in the present weak economic environment has required us to accelerate this direction to ensure our costs are contained".

Xerox's earnings have suffered as a result of the prolonged downturn in the US economy.

In the third quarter, the group reported that net income from continuing operations was $121m, down slightly from the year before. Costs have also risen this year because of the introduction of several new products, including a colour copier.

News of the planned lay-offs and fourth-quarter charge had little impact on the company's share price. By mid-morning Xerox was down only $¾ at $62⅞ on the New York Stock Exchange.

Deere turns in loss of $81.5m

By Barbara Durr in Chicago

DEERE & CO, the large agricultural equipment maker, reported a net loss in its fourth quarter of $81.5m, or $1.07 a share, after taking a $120m after-tax restructuring charge that covered employee reductions and the closure of a foundry.

The charge resulted in a net loss of $20.2m, or 27 cents a share, for the company's full fiscal year to October 31.

Excluding the one-time charges, net income would have totalled $38.5m for the fourth quarter and $99.8m for the year. However, even this would compare poorly with 1990's final quarter of earnings worth $74.5m, or 98 cents a share, and $411.1m, or $5.42, for the year.

Despite a warning from the company that it would take a large charge in the fourth quarter, Wall Street reacted negatively. In New York yesterday, Deere's shares were trading at $40⅞, having slid $4¼ to $43 after Tuesday's announcement.

Given weak demand for agricultural, industrial and grounds care equipment, Deere produced at significantly lower volume in 1991 in order to lower inventories.

Final Fairfax offers submitted as bank stays with Tourang

By Kevin Brown in Sydney

THE SALE of Australia's Fairfax newspaper group moved a step closer to completion yesterday as the four bidders submitted final offers to Mr Des Nicholl, the receiver appointed by the group's creditors to handle the sale.

The only surprise was the inclusion of Hellman & Friedman, the US investment bank, in the final offer from Tourang, a consortium formed by Mr Conrad Black, the Canadian proprietor of the Daily Telegraph group in the UK.

Hellman & Friedman had been expected to withdraw from Tourang after a government ruling that the bid was "not in the national interest", apparently because of the presence of two overseas investors. However, Mr Daniel Colson, chairman of Tourang, said the investment bank would retain its interest while the consortium discussed the structure of the bid with the government.

Tourang was given only two days to restructure its bid after the government ruling was announced on Monday. The government gave no reasons for its decision, and Tourang was unable to discuss it because of the illness of Mr Ralph Willis, the treasurer. However, Mr Colson said talks with officials indicated the government had misunderstood the structure of the bid, which critics say would mean more than 40 per cent of Fairfax passing into foreign hands.

Tourang says foreign control would be limited to the proposed 20 per cent stake to be held by the Daily Telegraph.

Mr Colson said Hellman & Friedman would withdraw from Tourang if the consortium was unable to reach agreement with the government. Ord Minnett, the Sydney stockbroking firm, has agreed to raise its underwriting commitment to cover the A$90m (US$69.7m) funding gap which will arise if Hellman & Friedman is forced to withdraw.

Tourang's A$1.425bn bid is regarded as the most likely to succeed. The other bidders are Australian Provincial Newspapers, headed by Mr Tony O'Reilly, an Irish newspaper proprietor and chief executive of Heinz, the US foods group, and Australian Independent Newspapers, representing a group of domestic financial institutions. Both have bid about the same as Tourang.

Paper industry growth expected to slow in US

By Martin Dickson in New York

THE US paper industry is expected to continue expanding over the next three years, but at a lower pace than this year's 3 per cent increase. This is because of economic uncertainty and escalating environmental costs, according to the American Paper Institute.

Its annual survey of projected capacity says about 4.92m tons of annual capacity are expected to be added in paper and board, an annual average rate of 1.9 per cent.

This will take total capacity to 91.9m tons by the end of 1994.

The survey projects an increase of 5m tons in the use of recycled paper, which by the end of 1994, should constitute more than 30 per cent of the industry's raw materials supply.

It says wood pulp capacity is expected to grow by 2.2 per cent and 2.4 per cent in 1991 and 1992, dipping to an annual average of 0.7 per cent in 1993 and 1994.

● Shinho, a Korean paper company, is negotiating to participate in re-starting the C$300m ($264m) Donohue-Matane pulp mill, 600 miles north-east of Montreal, writes Robert Gibbens in Montreal.

It may take pulp on a long-term contract and invest in the mill, said a Shinho spokesman in Toronto. Shinho has abandoned plans to build a hardwood pulp mill in Canada because of low prices.

The pulp mill was opened a year ago but was closed indefinitely this autumn because of weak markets and rising losses.

Orix establishes aircraft lease business in Ireland

By Paul Betts, Aerospace Correspondent

ORIX, the Japanese financial services company specialising in leasing, has set up a new aircraft operating lease business based in Ireland.

The new venture, Orix Aviation Systems, has also concluded its first two operating lease agreements with Mexicana Airlines, Mexico's largest carrier, and Balkan Bulgarian Airline.

The airlines are leasing four Airbus A320 aircraft each from the new Orix subsidiary. The Japanese company has on firm order a total of 24 Airbus A320 twin-engined airliners, including the eight aircraft already delivered, and options on an additional 50.

The company said yesterday it would lease out the other 16 aircraft it has on firm order by 1994.

Orix has long been involved in the airline market, financing the purchase of 212 aircraft by 62 carriers around the world. It decided to enter into the aircraft operating lease business two years ago when it was offered the opportunity to acquire new Airbus A320 aircraft originally ordered by Braniff, the now defunct US carrier.

Mr John Clarke, the new Dublin-based company's joint managing director, said yesterday the Japanese group was confident in the long-term prospects of the aviation and aircraft leasing sector.

Lonrho may sell 50% stake in Kühne & Nagel

By Raymond Snoddy in London

MR TINY ROWLAND'S Lonrho group is negotiating to sell its 50 per cent stake in Kühne & Nagel, the international freight and warehousing company, in a deal that could be worth well in excess of £100m ($180m).

The aim of the possible disposal is strategic: Lonrho prefers to control the companies in which it invests.

The other half of the company is controlled by Mr Klaus Michael Kühne, a descendant of the founding family. The company, which has a presence throughout the world, was established more than 100 years ago.

No final decision has yet been taken, but talks are believed to be continuing with Mr Kühne and a sale of Lonrho's 50 per cent is considered likely.

Mr Paul Spicer, a Lonrho director, declined to comment on the possible deal.

The London-based international conglomerate, which has expressed an interest in acquiring a majority stake in Mirror Group Newspapers, bought an interest in Kühne & Nagel in 1981. Then Kühne & Nagel was based in Hamburg but has since moved to Switzerland.

If the deal goes ahead it would help reduce Lonrho debt. The company's share price has come under pressure since the death of Mr Robert Maxwell.

In three days last week, the share price fell by 30 per cent, apparently amid anxiety that Lonrho, like the Maxwell empire, was effectively controlled by an elderly entrepreneur of strong views and no obvious succession.

A sale would also help to fund a Mirror acquisition. Mr Rowland has expressed interest in acquiring the MGN titles that include the Daily Mirror, the Sunday Mirror and The People. It is less clear how enthusiastic his board is about the possibility.

In particular, there could be problems over monopolies regulations in Scotland. MGN includes the Scottish Daily Record and the Sunday Mail but Lonrho already owns the Glasgow Herald and Evening Times and Scottish and Universal Newspapers.

Gota to receive SKr1.5bn aid

By John Burton in Stockholm

GOTA Group, Sweden's fourth-largest bank, is to receive a SKr1.5bn ($260m) loan from Trygg-Hansa SPP Holding, its largest shareholder. The emergency loan follows the disclosure by Gota that it expects an operating loss of SKr1.4bn for the current year.

Gota has sharply increased its estimate for credit losses and provisions in 1991 to SKr3.2bn from SKr1.2bn due to a continuing deterioration in the real estate market and the gloomy outlook for the Swedish economy.

It added that credit losses were expected to remain at a high level in 1992, with a consequent loss in earnings, and that acceptable profitability was not likely to be achieved until 1993 or 1994.

The loan from Trygg-Hansa, the Swedish insurance group, will help cover these credit losses, while allowing the Gota Group to maintain a capital adequacy ratio above the 8 per cent level that will become legally required next year.

Trygg-Hansa plans to convert all or part of the loan into ordinary or preferred stock in Gota through a proposed offer to current Gota shareholders next year that the insurance group will guarantee.

Gota's share price has fallen sharply in the belief that the group had underestimated its credit losses for year. The financial backing offered by Trygg-Hansa SPP is aimed at restoring investor confidence in Gota, according to analysts.

Trygg-Hansa last year paid SKr4.7bn for its half share of Gota, but a decline in Gota's share price over the past year, reflecting the crisis in the Swedish banking sector, has resulted in its total market value being cut in half to SKr2.2bn.

Peugeot Cycles control to go to Spain

By William Dawkins in Paris and Peter Bruce in Madrid

BEISTEGUI Hermanos (BH), the leading Spanish-owned bicycle-maker, is in the final stages of negotiations to take control of the French brand leader, Peugeot Cycles.

The share exchange deal would create a FFr2bn ($371.2m) turnover company with joint sales of 1.65m bicycles per year, out of a European Community market of 12m.

Peugeot Cycles, which sold 660,000 machines last year, is the latest well-known French brand name to pass into foreign hands since last month's bid by Italy's Agnelli family for the holding group that controls the Source Perrier mineral water business.

ECIA, the Peugeot car group subsidiary which owns Peugeot Cycles, would take a 35 per cent stake in a new holding company, to be based in France.

BH and its interests, which include control of the second largest player in the French bicycle market, Micmo Gitane, would take the remaining 65 per cent. Micmo Gitane will also participate.

The partners hope to lift their current joint 12.5 per cent EC market share to 20 per cent and are partly driven together by the growing competition from cheap imports from China, Malaysia, Indonesia and Taiwan. Alleged Taiwanese *dumping is being investigated* by the EC.

Anglo United raises cash for British Coal deal

By Roland Rudd in London

ANGLO UNITED, owner of the Coalite smokeless fuel business, is to sell non-core businesses to cut debt as it perseveres with its hopes of buying British Coal, which the UK government intends to privatise should it win the next general election.

The disclosure came as the group yesterday reported an increase in pre-tax profits to £3m ($5.40) from £1.1m for the six months to September 30. The results were boosted by Smokeless Fuels, which made operating profits of £6.4m, against £3.1m, and Solid Fuel distribution, which increased to £2.6m from £2.2m. However, chemicals and liquid fuels, which saw operating profits fall by 34 per cent to £3m, are now up for sale.

The sale of the loss-making non-core businesses will cut the debt of the group, which has already fallen by £70m to £196m, against £452m at the time of the acquisition of Coalite in 1989. Interest charges fell to £16.6m from £23.1m.

The group hopes the sale of chemicals and liquid fuel will strengthen its hand in negotiations to buy British Coal.

Cash from the sale should enable Anglo to pay off the biggest single outstanding loan repayment of £108m, due in 1996. The rest of the borrowings to buy Coalite will be paid back out of profits from the smokeless fuel business.

The purchase of British Coal would involve a reverse takeover of the corporation. A new company would be established to acquire both Anglo and British Coal by issuing new shares.

Anglo is talking with government officials about the purchase. It has told them it is willing to streamline the industry, and its interest in buying British Coal is not based on large supply contracts with National Power and PowerGen, the electricity generators.

Anglo's sales declined to £269.1m from £320.9m as a result of a disposal.

Earnings per share remained static at 1.3p, while *the interim dividend is maintained at 0.2p.*

Chemicals to merchant banking

Haig Simonian reports as dreams of the former managing director of the Enimont joint venture start to come true

Sergio Cragnotti: key is in the management of assets

JUST over a year after the collapse of Italy's Enimont chemicals joint venture, Mr Sergio Cragnotti, its Ferruzzi-appointed managing director, has realised his dream of creating his own merchant bank.

But Cragnotti & Partners Capital Investment (C&P) still has to prove it can do deals independently of Mr Cragnotti's erstwhile employers. And it has yet to show a return for the blue chip investors who have stumped up around L450bn ($370m) in launch capital.

Some of Mr Cragnotti's shareholders are ex-colleagues, like Mr Raul Gardini, with whom he worked closely building up Ferruzzi. Others, like Mr Gianni Varasi and Mr Jean-Marc Wernes, are long-standing Gardini allies. But it is a testament to Mr Cragnotti's diplomatic and marketing skills that C&P's investors include Ferruzzi itself, which parted company clamorously with Mr Gardini earlier this year.

Even more telling are the foreign institutions which have come on board. Swiss Bank Corporation has spent around L45bn on a 10 per cent stake, while Rabobank of the Netherlands and Crédit Lyonnais have 7.8 per cent and almost 5 per cent each.

Mr Cragnotti has also acted astutely to counter his limited reputation in financial circles, especially in northern Europe and the UK. Earlier this year, he signed up Mr Stanislas Yussukovich, a City veteran, to head his London operation and act as vice-chairman for finance for the whole group.

With virtually all the capital now paid up, C&P has decided to concentrate on packaging, detergents and foods. Mr Cragnotti reckons all three are ripe for what he claims is the *unique mixture of industrial* and financial skills which his company can provide.

Quite what skills C&P can offer that existing merchant bankers or venture capitalists lack is not clear. Dozens of US and European boutiques now specialise in purchasing, amalgamating and floating new groups. Kohlberg, Kravis, Roberts, the New York buy-out group, is but the best known.

Mr Cragnotti singles out C&P's understanding of the "industrial" side of running a business, rather than the banker's pre-occupation with finance, as its special contribution. "Ours is an industrial philosophy. The key is in the management of the assets," he says.

Probably the most obvious difference between C&P and its competitors is ambition. Rather than making the odd acquisition or financing a few buy-outs, its aim is nothing less than to create new multinationals.

It has already made plenty of moves in that direction. Last March, it spent C$77m (US$68.1m) to buy 52 per cent of Lawson Mardon, the Canadian packaging group, which *specialises in "soft" packaging* for cigarettes.

With sales of C$1bn and net profits of C$26m last year, the company forms the core of C&P's packaging plans.

Further growth has come through the recent purchase of 51 per cent of an undisclosed Spanish packaging group, whose $65m annual turnover will be integrated into Lawson Mardon.

Mr Cragnotti's boldest step came in September, with the $827m purchase, payable over the next seven years, of 50 per cent of the Brussels-based Ja/Mont paper group.

The company, which had 1990 sales of L2,268bn, is a joint venture between the US-based James River corporation and Ferruzzi's Montedison chemicals subsidiary.

C&P's efforts in detergents and packaging have been as sustained, if less spectacular. This month, it exercised its option to take full control of Brill, an Italian detergents group with sales of around $80m, in which it had bought an opening 49 per cent stake last May.

Brill, which has cost around L110bn, has also given C&P an entry into Brazil, a market which holds great appeal for Mr Cragnotti.

With the detergent market in developed countries already carved up between giants like Unilever and Procter & Gamble, C&P's strategy is to look for niches in areas where the multinationals are less dominant, according to Mr Cragnotti.

C&P's acquisitions are by no means over. Mr Cragnotti sees great opportunities in the recession-hit US. "We want to *concentrate on the US.* I think it's an important place for future deals. Prices are already falling, while Europe is still expensive," he says.

Despite C&P's success in buying assets, it still has to win its spurs as a serious rival *to the big industrial or finan*cial groups it is taking on. So far, observers have been sceptical as many of its purchases have come from Ferruzzi. And Ferruzzi's current disposal programme suggests it requires no great skills to prise assets from their owner.

Mr Cragnotti stresses that other big deals in the pipeline will involve neither Ferruzzi nor even Italy.

However, the biggest problem facing C&P in the short-term will be rewarding its shareholders – Mr Cragnotti included. Group sales this year, excluding CICA, will be around $1.4bn, generating net profits, after minorities, of around $25m – meagre compared with its $375m launch capital.

Mr Cragnotti is confident. The group has already decided not to distribute dividends for 1991, much of which was spent building up the business. Instead, it has promised shareholders a 6 per cent interim dividend in 1992 and a further 7 per cent at the year-end. With more acquisitions to *come, even a rights issue may* be eventually be required.

Trading in Belgian bank's shares resumes

TRADING resumed yesterday in the shares of Bank Brussels Lambert (BBL), Belgium's second-largest bank, after a suspension on Tuesday during which leading financial institutions in the Netherlands and Belgium responded to a Dutch press report that a bid for BBL *was imminent, writes Ronald* van de Krol in Amsterdam.

On Tuesday evening, BBL's main shareholders said they did not plan to sell their shares to Internationale-Nederlanden Groep (ING), the Dutch financial services group formed this year through the merger of insurer Nationale-Nederlanden and NMB Postbank.

*A statement by Belgian hold*ing group Groupe Bruxelles Lambert, BBL's biggest single shareholder with a stake of nearly 12 per cent, said the principal shareholders wanted to consolidate their influence at the bank and develop synergies between banking and insurance. BBL's shareholders include the insurer Groupe Royale Belge and Winterthur of Switzerland.

BBL's shares closed at BFr3,135 in Brussels yesterday, up BFr285.

In a report on Tuesday morning, the Dutch daily De Telegraaf said that ING was considering launching a paper-and-cash bid for BBL worth between BFr3,500 and BFr4,000 per share.

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 12.12.91: Pool purchase price £/MWh	Final Prices for Trading on 14.11.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.95	18.49	18.49
0100	18.66	19.36	21.28
0130	27.00	21.50	23.48
0200	27.00	21.50	23.46
0230	22.11	19.36	21.25
0300	22.11	19.38	21.25
0330	17.60	16.53	16.53
0400	17.08	16.43	16.43
0430	17.04	16.29	16.29
0500	17.04	16.29	16.29
0530	17.73	16.34	16.34
0600	17.91	16.34	16.34
0630	17.81	16.45	16.45
0700	19.39	18.54	20.41
0730	21.33	19.60	21.51
0800	24.19	20.14	22.08
0830	27.01	21.25	23.23
0900	27.28	21.39	23.37
0930	27.19	26.24	28.38
1000	27.07	26.25	28.39
1030	24.23	21.86	23.86
1100	22.98	21.87	23.87
1130	22.96	26.26	28.44
1200	22.96	26.34	28.52
1230	22.64	26.35	28.52
1300	21.44	26.31	28.46
1330	18.10	21.86	23.84
1400	18.23	21.83	23.79
1430	18.23	21.82	23.77
1500	18.04	21.54	23.48
1530	18.21	21.55	23.48
1600	31.88	22.14	24.17
1630	122.87	33.74	37.84
1700	219.37	59.38	66.15
1730	342.93	71.00	79.86
1800	169.85	65.42	73.55
1830	69.56	38.76	42.75
1900	37.83	28.92	31.33
1930	23.49	25.82	27.91
2000	21.26	21.74	23.68
2030	20.98	20.36	22.28
2100	20.91	20.35	22.26
2130	20.24	19.34	21.22
2200	19.82	18.90	20.77
2230	19.62	18.90	20.77
2300	17.67	16.48	16.48
2330	17.44	16.29	16.29
2400	17.42	16.29	16.29

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.56/MWh becomes 1.656p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

INTERNATIONAL COMPANIES & CAPITAL MARKETS

Red faces over record profits

Interest rate cuts have lifted Canada's banks, writes Bernard Simon

CANADA'S big six banks have faced an unusual public relations problem in recent weeks. Far from having to explain, like many of their counterparts elsewhere, losses from sour real estate loans or spectacular bankruptcies, the Canadian banks have been embarrassed by record profits.

With combined earnings of C$3.7bn (US$3.27bn) in fiscal 1991, the six banks alone have accounted for about 60 per cent of the total profits of the Toronto Stock Exchange's top 300 companies. However, the banks, sensitive to their high political profile and the troubles of many of their borrowers, are reluctant to trumpet that achievement too loudly.

The irony is that their performance is not quite as sparkling as a quick glance at the bottom line suggests.

While Royal Bank of Canada and Canadian Imperial Bank of Commerce, the two biggest institutions, reported record net earnings, their returns on equity and on assets have both slipped in the past year.

The slump in the Canadian economy and, in some cases, problems with US real estate loans and highly-leveraged deals, have sharply pushed up the banks' loan losses and non-performing loans.

As a group, their loan loss provisions climbed by 60 per cent last year. Loans on which interest is not being paid are at their highest level since the 1981-82 recession.

Problem loans and the recession have taken an especially heavy toll on Toronto-Dominion, which for most of the 1980s was Canada's most glamorous bank. It lost its triple-A credit rating earlier this year and was the only one of the six to suffer a fall in earnings last year.

TD also had the lowest return on equity of the six banks. Its return slipped to 10.1 per cent in the fourth quarter. Fourth-quarter return on assets was 0.70 per cent, compared with an average 0.90 per cent in 1990.

On the brighter side, several banks were buoyed by Third World debt recoveries. More than half of the 58 per cent jump in Royal Bank's international earnings came from higher LDC interest payments, especially from Brazil, and a C$100m reversal of its Third World debt provisions.

The biggest boost, however, came from the rapid slide in short-term Canadian interest rates over the past year, and the end of the inverse yield curve (when short-term rates are higher than long-term) which prevailed during 1990.

The banks' prime lending rate has fallen from a peak of 14.75 per cent in spring 1990 to 8 per cent now.

Bank of Nova Scotia, which has a relatively high proportion of fixed-rate loans, and a smaller-than-average portfolio of fixed-rate deposits, saw its net interest margin widen by 49 basis points last year, to 2.89 per cent. CIBC's margin was 2.94 per cent.

Neither the banks nor banking analysts are expecting another record year in 1992. "It will be a flattish kind of year," predicts one senior banker. "It's going to be hard to grow earnings at all, but the year shouldn't be a disaster either."

Every plus in the outlook seems to come with a minus, and vice versa. Thus, while domestic interest rates will probably fall further, the decline is unlikely to match that of the past 12 months.

The prospect of a sluggish economic recovery means loan losses and non-performing loans will remain at high levels. On the other hand, the banks are confident that they are now setting aside sufficient provisions to cover the bulk of the likely trouble spots.

Nonetheless, Sharon Ranson, analyst at BBN James Capel in Toronto, predicts that Royal, CIBC, Bank of Nova Scotia and, perhaps, Bank of Montreal will do well enough next year to lift their dividends. Only BNS raised its payout to shareholders this year.

While the record earnings may not be much to crow about, the Canadian banks can take pride in a strong capital position. Their ratios of capital to assets are already comfortably above the 1992 guidelines set by the Bank for International Settlements.

Royal Bank, for example, has a total capital ratio of 9.4 per cent, against a BIS target of 8 per cent. Measured by US accounting rules, its ratio is a sturdy 10.4 per cent.

CANADIAN BANKS: FISCAL YEAR ENDED OCT 31

	Net earnings (C$)	Return on equity (%)	Loan-loss provisions (C$m)
Royal Bank of Canada	983 (965)	15.5 (17.5)	605 (420)
CIBC	811 (802)	13.9 (15.8)	613 (254)
Bank of Montreal	595 (522)	15.0 (14.6)	337 (169)
Bank of Nova Scotia	633 (512)	16.2 (14.4)	374 (238)
Toronto-Dominion Bank	497 (596)	10.6 (13.5)	485 (353)
National Bank of Canada	186 (170)	11.0 (10.2)	270 (250)

Figures in parenthesis: previous year

Three Australian gold producers to link

By Kevin Brown in Sydney

POSEIDON Gold (Posgold), part of Mr Robert Champion de Crespigny's Normandy Poseidon group, yesterday announced plans to merge with two associated gold companies to form Australia's third largest gold producer.

Mr de Crespigny said the merger would create "a major internationally-ranked Australian gold company". He said further expansion was possible once the merger had been consolidated.

The merger will bring together Poseidon Gold, Mount Leyshon Gold Mines, and ACM Gold to give Posgold annual managed production of more than 1m ounces, and equity production of 670,000 ounces.

The merger is in line with earlier moves by Normandy Poseidon to simplify its structure in an attempt to improve its image with Australian investors, who have proved increasingly sceptical of complex shareholding structures.

Posgold owns 49 per cent of Mount Leyshon, and Normandy Poseidon holds a 40 per cent interest in ACM Gold following a recent takeover of Australian Consolidated Minerals (ACM), which it bought jointly with Western Mining.

Normandy Poseidon will emerge with 55.2 per cent of the merged company, and Anglo American, the South African mining group and a long-time backer of Mr de Crespigny, will own 4.2 per cent.

The deal will also result in a A$128.8m (US$99.8m) cash injection into Normandy Poseidon through the redemption of convertible redeemable preference shares held by Posgold. The repayment will be made from Posgold's cash balances.

The merged company will have a strong presence in three of Australia's biggest gold provinces - Kalgoorlie, Tennant Creek and Charters Towers. It will also hold minority stakes in a number of other gold producers.

Its gold resources will be in excess of 7.6m oz, equivalent to around more than 10 years of equity production at the current rate of output.

The merger will be achieved through two schemes of arrangement, subject to shareholder and regulatory approval. ACM Gold shareholders will be offered four Posgold shares plus A$1.10 cash and two Posgold 1994 options for every 11 shares. Mount Leyshon shareholders will be offered nine Posgold shares plus A$1.50 cash and five Posgold 1994 options for every five shares.

Posgold said the total cash outlay would be about A$48m. In addition, Posgold plans to repay A$70m of preference share funding arranged by a wholly-owned subsidiary by raising A$60m through an issue of new shares and A$10m through an issue of new 1994 options.

Posgold lost A$180m in the year to the end of June, after writing off A$194m against its holdings in Mount Leyshon and Gold Mines of Kalgoorlie, in which it owns a 29 per cent stake.

The write-off followed an adjustment of the carrying value of the holdings in the light of a fall in gold prices and the introduction of corporate taxation on the profits of gold producers.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. *Latest prices at 8:10 pm on December 11*

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	105¼	106¼	-½	6.75
ALBERTA PROVINCE 9 3/8 95	600	109¼	109¾	-¼	6.55
AUSTRIA 8 1/2 00	400	105¾	106¼		7.52
BANK OF TOKYO 8 3/8 96	100	104¾	105¼	+¼	7.04
BELGIUM 9 5/8 98	250	111½	112		7.32
BFCE 7 3/4 97	150	104	104½	+⅛	6.81
BNP 8 5/8 94	300	106¼	106¾		6.03
BRITISH GAS 8 3/8 99	350	105¼	105¾		7.43
CANADA 9 96	1000	108¾	109¼	-⅛	6.51
CARCO 9 1/4 96	650	103½	104	-⅝	8.36
CCCE 9 1/4 95	300	108¾	109¼		6.16
COUNCIL EUROPE 8 96	100	105	105½	-¼	6.70
CREDIT FONCIER 9 1/2 99	300	111½	112		7.35
DENMARK 8 1/4 94	150	105¼	105¾	-¼	6.00
DENMARK 9 1/4 95	1571	108½	109		6.24
ECSC 8 1/4 96	193	106¼	106½		6.76
EEC 8 1/4 96	100	105¾	106¼		6.75
EIB 7 3/4 96	250	104¼	104¾		6.63
EIB 9 1/4 97	1000	110¼	110¾	-¼	6.99
ELEC DE FRANCE 9 98	200	108¾	109¼		7.20
EURO CRED CARD TST 9 94	325	104½	104¾	+⅛	7.25
EUROFIMA 9 1/4 96	100	108½	109¼		6.86
EXPORT DEV CORP 9 1/2 98	150	111	111½	-¼	7.32
FINLAND 7 7/8 97	200	103½	104¼	+⅛	7.03
FINNISH EXPORT 9 3/8 95	200	109¼	109¾		6.58
FORD CAPITAL 9 3/4 97	250	106	106½	-⅛	8.32
GEN ELEC CAPITAL 9 3/8 96	300	108½	109		7.05
GMAC 9 1/8 96	200	104¼	104¾	-¼	7.86
GUINNESS FINANCE 8 94	200	104¼	104¾	+¼	6.09
IBM INTL FIN 7 3/4 94	200	103¾	104¼	-¼	5.91
IND BK JAPAN FIN 7 7/8 97	200	102¾	103¼	+¼	7.22
INTER AMER DEV 7 5/8 96	200	103½	104	+⅛	6.70
ITALY 8 1/2 94	1500	106½	106¾		5.96
JAPAN DEV BK 8 94	150	104¾	105¼		5.89
KANSAI ELEC PWR 10 96	350	110¾	111¼	-⅛	7.00
LTCB FIN 8 97	200	102¾	103¼	+⅛	7.33
NEW ZEALAND 9 94	850	106¾	107¼		6.16
NIPPON CRED BK 10 3/8 95	150	107¼	107¾	-2¼	7.90
NIPPON TEL & TEL 9 3/8 95	200	108¼	108½		6.49
ONTARIO 8 1/2 02	600	103¼	103¾	-⅛	7.98
ONTARIO HYDRO 11 5/8 94	200	110½	111	-⅝	6.37
OSTER KONTROLLBANK 8 1/2 01	200	104¾	105¼	-⅛	7.75
PETRO-CANADA 7 1/4 96	200	102	102½	+¼	6.70
QUEBEC HYDRO 9 3/4 98	150	110¼	110¾	-¼	7.77
QUEBEC PROV 9 98	200	106½	107	-⅛	7.63
SAINSBURY 9 1/8 96	150	107¾	108¼		7.15
SAS 10 99	200	107¾	109¼	+¾	8.48
SBAB 9 1/2 95	500	109	109½		6.49
SNCF 9 1/2 98	150	110¾	111¼	-⅛	7.35
STATE BK NSW 8 1/2 96	200	105¼	105¾	-¼	7.12
SWEDISH EXPORT 8 3/8 96	700	106¼	106½	-⅛	9.00
TOKYO ELEC POWER 8 3/4 96	300	107¾	108¼	+¼	6.79
TOKYO METROPOLIS 8 1/4 96	200	106	106½	+⅛	6.77
WORLD BANK 8 3/8 99	1500	106¼	106¾	-⅛	7.40
WORLD BANK 8 3/4 97	1500	109¼	109¾	-⅛	6.76
XEROX CORPN 8 3/8 96	100	103¾	104¼	+⅛	7.53

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
BAPROVEN 11 1/8 95	200	101¼	101¾	+¾	10.68
BK ECON USSR 7 96	750	59½	59½	-9½	22.64
BULGARIAN TRADE BK 8 1/2 96	200	85¼	85¾	+¾	12.91
CZECH OBCHODNI BANKA 10 95	350	95¼	95¾	-1¼	11.63
DEUTSCHE FINANCE 7 1/2 95	1000	96¾	96¾		8.67
EIB 5 3/4 98	400	87½	87¾		8.34
EIB 6 7/8 95	300	96¼	96¾		8.02
EUROFIMA 6 1/4 98	400	89¼	89¾		8.45
FIRST INTERSTATE 5 3/4 96	100	85	85½	-½	10.12
IND BK JAPAN FIN 5 5/8 96	200	89	89		8.74
IND DEV BK INDIA 6 3/8 94	200	88	88		11.27
LUFTHANSA INT FIN 5 7/8 98	500	86½	86½		8.75
NACIONAL FINANCIERA 11 95	150	101	101	-¼	10.60
NAT BK HUNGARY 8 96	200	92½	92½	+1½	10.03
QUEBEC HYDRO 6 3/4 99	300	89¾	89¾		8.67
SWEDEN 6 1/8 98	300	89¼	89¾	-⅛	8.42
WORLD BANK 0 15	2000	18¼	18¾	+¼	7.37
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
BAYERISCHE VEREINS INT 7 94 LFr	600	94	95		9.67
COPENHAGEN TEL 8 5/8 96 LFr	600	98	98¾	-¼	9.23
WORLD BANK 8 96 LFr	1000	96½	97½	+⅛	9.09
ABN AMRO HOLDING 9 1/4 01 Fl	750	101½	102		8.97
UNILEVER 9 00 Fl	500	102¾	103¼		8.52
ALBERTA PROVINCE 10 5/8 96 C$	500	106¼	106½		8.79
BELL CANADA 10 5/8 99 C$	150	106	106½		9.46
BRITISH COLUMBIA 10 96 C$	500	104¼	104¾		8.78
EIB 10 1/8 98 C$	130	104¾	105¼	-½	9.18
ELEC DE FRANCE 9 3/4 99 C$	275	103¾	104¼		9.02
FORD CREDIT CANADA 10 94 C$	100	103¼	103¾	+¼	8.49
GEN ELEC CAPITAL 10 96 C$	300	104	104½	-⅛	8.85
KFW INT FIN 10 01 C$	400	104	104½	-⅛	9.32
NIPPON TEL & TEL 10 1/4 94 C$	200	105½	106		9.22
ONTARIO HYDRO 10 7/8 99 C$	500	107¼	107¾		9.39
OSTER KONTROLLBANK 10 1/4 99 C$	150	105½	106		9.20
QUEBEC PROV 10 1/2 98 C$	200	105½	106		9.39
BELGIUM 9 1/8 96 Ecu	1250	100¼	100¾		9.07
CREDIT LYONNAIS 9 96 Ecu	125	97¾	99¼		9.58
DENMARK 7 5/8 96 Ecu	250	91¾	93¼	-⅛	9.98
EEC 7 5/8 94 Ecu	200	96¼	96¾	+⅛	9.49
EIB 10 97 Ecu	1125	104¼	104¾	+⅛	8.92
FERRO DEL STAT 10 1/8 98 Ecu	500	104¼	104¾		9.20
ITALY 10 3/4 00 Ecu	1000	109½	109¾	+⅛	9.04
UNITED KINGDOM 9 1/8 01 Ecu	2750	101¾	102	+⅛	8.81
BP AMERICA 12 1/4 96 A$	100	108¾	109¼	+¼	9.57
COMM BK AUSTRALIA 13 3/4 99 A$	100	117½	118		10.32
EKSPORTFINANS 12 3/8 95 A$	75	110¼	110¾	-⅛	8.82
EUROFIMA 14 5/8 94 A$	75	112¼	112¾	+⅛	8.70
MCDONALDS CANADA 15 95 A$	100	115½	116¼	+⅛	9.54
NAT AUSTRALIA BANK 14 3/4 94 A$	150	110¾	111½		8.98
STATE BK NSW 14 1/4 99 A$	100	117¾	118¼		10.73
UNILEVER AUSTRALIA 12 96 A$	150	108½	109¼		10.06
VOLKSWAGEN INTL 15 94 A$	100	111¾	112¼	+⅛	9.17
ABBEY NATL TREAS 13 3/8 95 £	100	106½	107¼		10.78
ALLIANCE & LEICS 11 3/8 97 £	100	101¼	101½	+⅛	11.02
BRITISH GAS 12 3/4 95 £	300	105¾	106¼	+⅛	10.49
DEUTSCHE BK FIN 11 94 £	225	101¼	101½	+⅛	10.35
EIB 10 97 £	536.5	99¼	99½	+⅛	10.18
FINLAND 10 1/8 97 £	100	99¾	100¼	+⅛	10.17
INTER AMER DEV 11 3/8 95 £	75	102¾	103¼	+⅛	10.34
ITALY 10 1/2 14 £	400	99¼	99¾	+⅛	10.56
LAND SECS 9 1/2 07 £	200	86	86½	+⅛	11.46
NORWAY 10 1/2 94 £	200	100¾	101	+⅛	10.13
ONTARIO 11 1/8 01 £	100	103¼	103½	+⅛	10.56
SEVERN TRENT 11 1/2 99 £	150	102¼	102¾	+⅛	10.99
SKANDINAVISKA ENSK 13 1/8 95 £	100	105¼	105¾	-⅛	11.10
TOKYO ELEC POWER 11 01 £	150	103¼	103¾		10.44
WORLD BANK 11 1/4 95 £	100	102½	103	+⅛	10.30
ABBEY NATIONAL 0 96 NZ$	100	63¾	64¾	-⅛	9.76
BNP 12 96 NZ$	50	109¾	110¼	-⅛	9.25
CEPME 10 95 FFr	2000	101½	102¼	+⅛	9.40
ELF-AQUITAINE 9 99 FFr	600	98¼	98¾	+⅛	9.29
EURATOM 7 5/8 98 FFr	500	91¾	92¼	-⅛	9.35

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
ALLIANCE & LEICS 0.08 94 £	300	99.52	99.62	10.6425
BANCO ROMA 0.03 01	200	91.50	92.50	6.4675
BELGIUM 1/16 97 DM	500	99.96	100.06	9.5000
BFCE -0.02 96	350	100.13	100.25	4.9175
BNP 05	300	95.54	96.42	5.5625
BRITANNIA 1/10 96 £	150	99.09	99.29	10.6625
CCCE 06 ECU	200	99.93	100.03	10.1563
CITIZENS FED 0.15 96	100	99.45	99.95	5.9625
CREDIT FONCIER -1/16 98	200	100.22	100.32	5.3438
DENMARK -1/8 96	1000	99.83	99.93	5.6875
DRESDNER FINANCE 1/32 98 DM	1000	99.97	100.06	9.5156
ELEC DE FRANCE 1/8 99	400	100.58	101.03	6.0625
FERRO DEL STAT 94	200	100.58	100.83	5.9975
HALIFAX 1/10 94 £	200	99.94	100.04	10.5375
IRELAND 98	300	99.50	99.60	6.4400
ITALY 00	500	100.35	100.43	6.3750
LEEDS PERMANENT 1/8 96 £	200	99.25	99.40	10.4375
[illegible]	[illegible]	[illegible]	[illegible]	6.0375
[illegible]	[illegible]	[illegible]	[illegible]	5.9375
[illegible]	[illegible]	[illegible]	[illegible]	5.2500
[illegible]	[illegible]	[illegible]	[illegible]	5.5000
[illegible]	[illegible]	[illegible]	[illegible]	5.0000
[illegible]	[illegible]	[illegible]	[illegible]	5.6250
[illegible]	[illegible]	[illegible]	[illegible]	6.4875
[illegible]	[illegible]	[illegible]	[illegible]	5.2500
[illegible]	[illegible]	[illegible]	[illegible]	10.5063

CONVERTIBLE BONDS	Issued	Cnv. price	Bid	Offer	Prem.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+29.40
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+15.52
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+12.28
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+35.13
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+24.49
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+18.43
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+67.30
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+7.99
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+26.81
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+66.01
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+60.84
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+24.63
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+15.12

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month [illegible]) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Telecom NZ moves to halt state inquiry

By Terry Hall in Wellington

TELECOM Corporation of New Zealand has issued proceedings in the High Court to stop the Commerce Commission's inquiry into the telecommunications industry.

The commission is investigating Telecom NZ's alleged anti-competitive behaviour in the telecommunications market. It is also studying the government's comparative lenience on disclosure by communications companies. The current disclosure regime replaced much more heavily regulated systems following industry deregulation last year.

The legal action comes after the commission ignored a 48-hour deadline from Telecom NZ to discontinue the inquiry. Telecom said the inquiry was inappropriate while Telecom NZ was involved in other High Court actions which would feature in the inquiry. Telecom NZ is also involved in court cases with its rival, Clear Communications.

This week, Telecom NZ, which was listed on international stock exchanges in July, claimed that news of the inquiry was damaging its share price.

Mr Maurice Williamson, the government minister responsible for communications, has warned the companies to adopt a realistic approach to competition or face the reimposition of a heavily-regulated regime.

HK bank group confirms sale of Cathay stake

HSBC Holdings, the London holding company for Hongkong Bank, yesterday confirmed that an indirectly, but wholly-owned, subsidiary has sold a 3.78 per cent stake in Cathay Pacific Airways for HK$1.03bn (US$132.5m), writes Angus Foster in Hong Kong.

The stake of 108m shares was sold to institutional investors through James Capel, the bank's stockbroking subsidiary, at HK$9.50 a share.

This is the second sale of Cathay shares by the bank this year. It reduces its stake in the airline to 10 per cent.

HSBC said the sales were part of a strategy to concentrate on core holdings, although it had no plans to further cut its Cathay stake.

INTERNATIONAL CAPITAL MARKETS

Maastricht deal provides fillip for European bonds

By Sara Webb in London and Patrick Harverson in New York

THE agreement reached at the European Community summit in Maastricht provided a welcome boost for high-yielding European government bond markets yesterday. Traders said that the agreement dispelled fears that plans for European monetary union could be jeopardised.

French government bonds gained over half a percentage point yesterday in the wake of the summit and the strengthening of the French franc against the D-Mark. The yield on the 9¼ per cent French Treasury bonds, due 2001, closed at 8.84 per cent, compared with 8.93 per cent at Tuesday's close. On the Matif futures exchange in Paris, the December bond futures contract gained 54 basis points to close at 106.26 on a volume of 13,282 lots.

With the strong performance of the French government bond market, the yield spread over 10-year German government bonds has narrowed sharply, from 67 basis points on Tuesday afternoon to 56 basis points yesterday.

German government bond prices eased slightly as investors switched out of bunds into the higher-yielding markets, particularly the French and UK government bond markets.

Traders said volumes in the bund market were light, although there were some shortening trades from five-year bunds into three-year paper. The Liffe bund future contract traded at around 86.36 by late afternoon, compared with 86.44 at Tuesday's close.

■ LONG-DATED UK government bonds gained half a percentage point, boosted by both foreign and domestic buying interest following the successful outcome of the Maastricht summit agreement.

Traders said the agreement at Maastricht boded well for the convergence of high-yielding bond markets. They added it temporarily lessens the political risk for the Conservative government which has come under attack on the issue of European monetary union.

The Liffe gilt future contract rose from 96.01 to close at 96.04 while the benchmark 11¾ per cent gilt due 2003/07 rose from 113¾ to 114⅛.

■ JAPANESE government bonds closed slightly higher in London after a roller-coaster trading session in Tokyo and the UK, influenced by the Japanese stock market slide and speculation about lower interest rates.

The yield on the benchmark No 129 opened at 5.625 per cent but moved to 5.69 per cent in Tokyo's afternoon trading session following a sharp drop in share prices. The Nikkei average dropped over 3 per cent, hitting the 1991 low before staging a partial recovery.

Dealers said the bond market was also disturbed by rumours that Yamaichi, one of Japan's big four securities firms, was in financial trouble, although Yamaichi denied the rumours.

The yield on the No 129 closed at 5.65 per cent in Tokyo, but moved to 5.605 per cent in London trading after a Japanese wire service reported the Bank of Japan was prepared to allow short-term interest rates to fall in order to support the flagging economy.

Although the Bank of Japan denied the report shortly afterwards, prices remained firm and volume in the Liffe futures contract hit a record level of over 2,300 contracts. The unsecured overnight call rate was mostly traded at 6⅝ per cent, down from Tuesday's 6⅞ per cent.

■ AFTER two days of solid gains, US Treasuries held their own yesterday morning as dealers and investors waited on the sidelines for the release of the latest inflation data.

By midday, the benchmark 30-year government bond was unchanged at 102⅜, yielding 7.785 per cent, while the two-year note was up ⅛ at 100¾, yielding 5.010 per cent. Trading activity was said to be light.

Prices have been bid up at both ends of the market this week on hopes of a further easing of monetary policy by the Federal Reserve.

Yesterday, the buying stopped, with participants reluctant to commit funds to the market for fear of sudden shocks from the inflation news. The producer prices and the consumer prices figures for November (due today and tomorrow and forecast to show rises of 0.3 per cent on the month), however, are not expected to conjure up any surprises.

■ SUBSCRIPTIONS to the latest Belgian state loan will total more than BFr40bn, the Finance Ministry said.

Subscriptions for the 9 per cent loan maturing in January 1999, which was aimed at private investors, ended today.

The previous bond issue for private investors, in June, gathered BFr60.5bn.

GOVERNMENT BONDS

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		12.000	11/01	114.7118	+0.273	9.68	9.76	9.83
BELGIUM		9.000	06/01	99.2000	+0.050	9.11	9.14	9.04
CANADA *		8.500	04/02	99.9000	-0.150	8.51	8.47	8.55
DENMARK		9.000	11/00	100.4000	+0.280	8.93	9.02	8.87
FRANCE	BTAN	8.500	11/96	97.5935	+0.264	9.11	9.20	8.89
	OAT	9.500	01/01	104.0700	+0.670	8.82	8.96	8.74
GERMANY		8.25	09/01	99.8000	-0.050	8.27	8.32	9.23
ITALY		12.000	05/01	96.8200	+0.340	12.58	12.67	12.46
JAPAN	No 119	4.800	06/99	94.0450	-0.023	5.95	6.07	6.20
	No 129	6.400	03/00	104.4653	+0.088	5.61	5.74	5.86
NETHERLANDS		8.500	03/01	98.2500	+0.010	8.77	8.83	8.71
SPAIN		11.600	07/96	100.6500	+0.500	11.65	11.94	11.70
UK GILTS		10.000	11/95	100-30	+7/32	9.75	9.90	9.63
		10.000	02/01	102-05	+13/32	9.64	9.86	9.63
		9.000	10/08	96-12	+14/32	9.43	9.59	9.47
US TREASURY *		7.500	11/01	102-09	+7/32	7.17	7.25	7.40
		8.000	11/21	102-13	+1/32	7.79	7.89	7.87

London closing. *New York morning session. Prices: US, UK in 32nds, others in decimal. Yields: Local market standard. Technical Data/ATLAS Price Sources

Difficulties hit stock options market plan

By Richard Waters

LONDON'S attempts to create an active market in share options appeared to be foundering yesterday as it emerged that too few market-makers were prepared to commit themselves to creating an adequate market.

At the same time, the London International Financial Futures Exchange said its plan to merge with the London Traded Options Market on January 31 would be delayed for at least two months.

The merger, already running a year behind schedule, has been delayed further by technical problems, including the creation of settlement arrangements, a legal structure and adequate systems for the merged market.

Liffe said sufficient market-makers had put themselves forward to create a market in index options, such as that based on the FT-SE 100 index of leading stocks. However, too few had offered to make markets in the 67 stock options based on individual shares which are currently traded on LTOM. One of the main reasons for the merger of the two exchanges has been to stimulate greater trading in individual stock options, which have languished since the market was first created.

Announcing further consultations with potential market-makers, Mr Michael Jenkins, chief executive of Liffe, said: "We have concluded that we are not yet in a position to confirm the adequacy of the market-making capacity."

Some 307 applications were made last month for "D" shares in the new merged market, each of which allows the holder to act as a broker or market-maker in equity options. Although this was higher than the minimum required application of 200, too few applicants expressed an interest in making markets in individual options.

Liffe said it would delay issuing the "D" shares until it could establish whether sufficient market-making capacity could be found. One option would be to cut the number of individual options being traded on the new market.

ASB urges tough definition of equity

By Simon London

UK COMPANIES could be discouraged from issuing certain types of debt-equity hybrid bonds if tough new proposals on accounting for capital instruments, unveiled yesterday, are implemented by the Accounting Standards Board.

The ASB has suggested a rigorous definition of equity which would stop UK companies from accounting for debt instruments as a part of shareholders' funds. It suggests that only instruments which have no redemption date and have payments directly related to profits should be accounted for as equity.

The proposals affect three main types of debt-equity hybrid capital instruments used widely by UK companies:

● Convertible capital bonds issued by companies including ASDA, Blue Circle, Boots, Sainsbury, Tarmac and Hanson. The bonds are usually issued by a guaranteed subsidiary and converted into shares of the subsidiary which can then be exchanged for shares of the parent company.

They are often accounted for as a minority interest under shareholders' funds on the grounds that the bonds are deeply subordinated and are likely to be converted.

The ASB proposes the bonds should be accounted for as a liability under the heading of convertible debt.

It commented that the likelihood of future conversion into equity at a later date was not a good justification for accounting for the bonds as near-equity.

● Auction market preferred shares, issued in the US by UK companies including Beazer, BET, Cadbury Schweppes, ECC Group, Rank, Ratners and Tarmac. The shares carry a dividend decided by an auction among investors, subject to an upper limit or cap, which goes up if the credit quality of the issuer goes down. The shares are redeemable at the option of the issuer, usually at issue price.

AMPS are usually accounted for as shareholders' funds on the consolidated balance sheet, with a note to the accounts giving the *nominal* value of the shares in issue. The ASB argues that this does not tell investors the cost of servicing the debt or the cost of redemption.

Hence it suggests the AMPS should be accounted for as non-equity shares under shareholders funds with full disclosure on the consolidated balance sheet of the market value of the issue.

● Warrant bond issues, where straight debt securities are issued with warrants to buy shares attached.

The ASB proposes that the value of the warrant is recognised separately from the debt in the balance sheet.

Hence, if a warrant bond issue is made at par, only perhaps 80 per cent of the proceeds should be shown as debt. The difference between 80 per cent of face value and the par redemption value of the bonds should be recognised as an additional finance cost.

The proposal would effect companies such as Hanson, which issued loan stock with warrants as part of its £350m acquisition of Beazer this autumn. The value of the warrants would have to be recognised and the loan stock discounted, with the difference between the discounted and redemption value of the loan stock appearing as an additional financing charge.

The ASB's proposals are open for comment until March 16, after which it will produce a formal exposure draft on which the final accounting standard will be based.

Council of Europe launches Ecu200m issue

By Simon London

THE Council of Europe yesterday launched a Ecu200m two-year bond issue in the international bond market, following agreement at the Maastricht summit which clears the way for the eventual adoption of the Ecu as a single European currency.

INTERNATIONAL BONDS

Lead-managed by UBS Phillips & Drew, the 9⅜ per cent bonds were re-offered to investors at a fixed price of par, a level maintained by the lead manager throughout the day.

Some retail buyers were attracted into the deal following the publicity surrounding the Maastricht summit. In addition, the Ecu bond market was paralysed by uncertainty ahead of the summit, leading *to a shortage of paper*.

However, the pricing was considered tight by participants in the deal, and most reported better demand for Ecu paper at the longer maturities. Demand for long-dated paper may attract other issuers before the year-end, including the European Community, which has been looking at the market this week.

Elsewhere, Mortgage Securities No 3, a special purpose subsidiary of First Mortgage Securities, launched a £117m mortgage-backed bond issue in three tranches. The two main tranches of the deal, lead managed by Baring Brothers, offered senior bonds with an average life of 1.59 years or 4.5 years respectively.

The £63m short-dated tranche pays 37.5 basis points more than the three-month London interbank offered rate (Libor), the £39m longer-dated bonds pay 0.55 basis points over Libor.

All three senior tranches carry a top triple-A credit rating on the basis of a further tranche of subordinated bonds which were placed privately. The subordinated bonds absorb initial losses in the event of default on the underlying mortgages, in the manner of equity.

Eurofima launched a A$200m 16-year international bond issue lead-managed by Merrill Lynch. The registered bonds pay a semi-annual coupon of 9⅞ per cent and were reoffered to investors at a fixed price of 100.4271, where the yield spread over Australian government securities is 13 basis points.

● Barclays de Zoete Wedd yesterday added its name to the list of firms which make a market in permanent interest-bearing shares, the new form of capital instruments issued by UK building societies.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
ECUs						
Council of Europe(a)†	200	9⅜	100.975	1994	1⅛/0.975	UBS Phillips & Drew
STERLING						
Mtge.Securities No.3(b)‡†	63	(b)	100	2035	0.655/0.10	Baring Bros
Mtge.Securities No.3(c)‡†	39	(c)	100	2035	0.15/0.26	Baring Bros
AUSTRALIAN DOLLARS						
Eurofima(d)†	200	9⅞	100.4271	2007	45/20bp	Merrill Lynch
PESETAS						
EIB(e)†	10bn	11.15	102.95	1996	1⅝/1	Banco Bilbao Vizcaya
D-MARKS						
Kaufhof Plus Fin.BV(f)♦†	100	8½	101	2002	2½/1½	Commerzbank
YEN						
All Nippon Airways(a)†	20bn	6.35	101.85	2000	2/1¼	Nikko Europe
Marubeni Int.Fin UK(g)†	9.9bn	6.4	101⅝	(g)	1⅞/1.7	Nomura Int.

**Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Mortgage-backed issue. Callable from 1/95 at par. Average life - 1.59 years. Coupon pays 3-month Libor + ⅜% until 1/95, then 3-month Libor + ¾% thereafter. c) Mortgage-backed issue. Callable from 1/97 at par. Average life - 4.5 years. Coupon pays 3-month Libor + 0.55% until 1/97, then 3-month Libor + 1% thereafter. Further tranche of £15m, details undisclosed. d) Global issue. Coupon payable semi-annually. Non-callable. e) Matador issue. Fungible with existing Pta40bn deal. Non-callable. f) Callable 1994/95/96 at par. Kaufhof also launching 1m bond warrants. g) 3 tranches, tranche A, amount - Y4.9bn, maturity - 26/2/97. B: Y2.2bn, 23/4/94, C: Y2.8bn, 27/3/98. Non-callable.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wed Dec 11 1991 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1991 to date	Tue Dec 10 Index No.	Mon Dec 9 Index No.	Fri Dec 6 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (179)	728.51	-0.3	9.35	6.63	13.67	34.30	730.46	732.22	718.82	722.92
2	Building Materials (23)	869.19	-0.1	8.02	7.17	16.83	46.51	869.77	869.51	849.28	982.74
3	Contracting, Construction (29)	910.73	-0.7	8.22	8.31	17.83	51.42	917.04	914.08	895.94	1137.47
4	Electricals (10)	2326.37	-0.8	10.37	6.37	12.28	98.23	2344.31	2356.61	2325.91	1902.02
5	Electronics (25)	1618.73	-0.1	11.42	5.33	11.10	53.94	1620.54	1632.72	1602.93	1533.11
6	Engineering-Aerospace (8)	330.45	+1.4	16.96	7.86	7.12	18.52	325.99	326.65	323.99	398.27
7	Engineering-General (43)	450.13	-0.4	10.69	5.58	11.54	18.20	451.95	452.13	448.24	370.07
8	Metals and Metal Forming (9)	297.05	-1.1	2.20	11.85	-	25.83	300.50	301.81	299.33	406.60
9	Motors (12)	280.57	+0.7	9.22	8.58	14.39	17.56	278.60	278.58	274.53	292.80
10	Other Industrial Materials (20)	1458.65	-0.6	8.21	5.62	14.49	59.05	1468.09	1473.60	1438.63	1258.52
21	CONSUMER GROUP (190)	1521.14	-0.9	7.73	3.71	15.97	40.73	1535.17	1545.03	1532.98	1225.57
22	Brewers and Distillers (23)	1883.14	-0.1	8.99	3.76	13.45	49.14	1885.33	1888.10	1872.01	1569.63
25	Food Manufacturing (19)	1190.34	-0.1	9.66	4.25	12.78	37.32	1191.28	1184.90	1179.04	1028.41
26	Food Retailing (17)	2323.38	-0.8	9.98	3.57	13.02	65.37	2342.40	2366.83	2372.06	2264.39
27	Health and Household (23)	4043.39	-1.1	5.09	2.38	22.56	72.62	4087.80	4140.27	4078.69	2547.58
29	Hotels and Leisure (24)	1164.71	-2.7	8.76	5.82	14.13	45.61	1197.02	1216.49	1217.79	1214.86
30	Media (25)	1378.76	-1.7	7.41	5.17	17.66	48.36	1402.02	1419.26	1407.09	0.00
31	Packaging, Paper & Printing (17)	716.78	-1.0	7.53	4.64	16.10	24.43	724.01	721.40	715.44	526.45
34	Stores (32)	959.41	-1.2	7.88	3.87	16.69	26.77	970.61	972.71	966.48	797.93
35	Textiles (10)	583.80	-1.2	7.94	5.32	16.08	22.28	590.61	594.52	596.26	430.50
40	OTHER GROUPS (112)	1154.07	-0.2	10.43	5.76	12.11	40.33	1156.43	1156.84	1158.86	1016.22
41	*Business Services (13)*	1387.71	+1.2	7.27	4.80	17.46	46.93	1371.40	1377.00	1369.37	0.00
42	Chemicals (21)	1338.77	+0.1	7.45	5.48	16.67	54.35	1337.13	1353.57	1352.34	1087.71
43	Conglomerates (11)	1234.85	-2.4	11.80	8.70	10.41	44.87	1265.06	1270.17	1256.67	1298.94
44	Transport (14)	2197.01	+0.2	5.84	5.15	22.55	79.12	2193.07	2188.23	2165.05	1903.30
45	Electricity (16)	1176.05	+1.1	15.31	5.92	8.50	27.53	1163.83	1146.62	1147.05	0.00
46	Telephone Networks (4)	1373.49	+0.5	11.43	4.56	11.43	30.42	1367.16	1367.85	1399.20	1140.92
47	Water (10)	2197.44	+0.3	19.25	7.18	5.73	151.44	2189.97	2170.90	2184.65	2189.43
48	Miscellaneous (23)	1690.74	-2.2	5.92	5.86	23.24	75.10	1729.62	1734.78	1707.95	1612.83
49	INDUSTRIAL GROUP (481)	1204.83	-0.6	8.87	4.87	14.12	39.66	1211.85	1216.51	1208.42	1039.06
51	Oil & Gas (19)	2130.11	-0.4	12.13	6.59	10.90	104.27	2138.48	2161.56	2152.90	2274.64
59	500 SHARE INDEX (500)	1286.43	-0.6	9.24	5.07	13.67	44.82	1293.64	1299.63	1291.39	1140.95
61	FINANCIAL GROUP (91)	695.15	+0.3	-	6.70	-	34.41	693.26	700.38	691.06	726.99
62	Banks (9)	801.71	+0.4	4.97	6.62	39.42	38.97	798.57	804.33	796.73	773.24
65	Insurance (Life) (7)	1368.09	+1.1	-	6.19	-	63.68	1353.32	1384.01	1356.16	1313.04
66	Insurance (Composite) (7)	503.51	....	-	8.66	-	32.94	503.75	512.80	493.77	637.07
67	Insurance (Brokers) (10)	970.72	-0.6	8.42	6.89	15.64	49.46	976.68	985.34	966.48	967.67
68	Merchant Banks (7)	453.79	+0.1	-	4.74	-	16.06	453.36	448.84	451.09	355.79
69	Property (35)	815.94	+0.1	6.08	5.77	24.17	33.34	815.24	823.66	821.06	985.55
70	Other Financial (16)	229.18	-0.5	11.55	7.63	10.89	13.03	230.30	229.59	230.88	255.01
71	Investment Trusts (69)	1124.47	-0.3	-	3.85	-	31.82	1127.76	1134.08	1133.87	1023.13
99	ALL-SHARE INDEX (660)	1145.30	-0.4	-	5.23	-	41.78	1150.47	1156.61	1148.49	1038.76

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Dec 10	Dec 9	Dec 6	Dec 5	Dec 4	Year ago
FT-SE 100 SHARE INDEX♣	2380.2	-11.8	2402.6	2378.2	2392.0	2409.6	2388.7	2407.0	2423.8	2156.9

FIXED INTEREST

	PRICE INDICES	Wed Dec 11	Day's change %	Tue Dec 10	Accrued interest	xd adj. 1991 to date
	British Government					
1	Up to 5 years (27)	122.34	+0.10	122.22	2.51	10.97
2	5-15 years (27)	135.66	+0.27	135.29	2.61	12.45
3	Over 15 years (8)	143.52	+0.36	143.01	1.21	13.28
4	Irredeemables (6)	158.88	+0.27	158.45	1.43	13.68
5	All stocks (69)	133.71	+0.22	133.41	2.49	12.16
	Index-Linked					
6	Up to 5 years (2)	167.10	....	167.09	0.72	3.16
7	Over 5 years (9)	148.22	+0.10	148.24	1.11	4.00
8	All stocks (11)	149.69	+0.09	149.71	1.05	3.96
9	Debs & Loans (62)	113.64	+0.14	113.49	1.70	10.75

	AVERAGE GROSS REDEMPTION YIELDS		Wed Dec 11	Tue Dec 10	Year ago (approx.)
	British Government				
1	Low	5 years	8.73	8.78	9.61
2	Coupons	15 years	9.39	9.43	10.02
3	(0%-7¾%)	20 years	9.39	9.43	10.04
4	Medium	5 years	9.75	9.79	10.82
5	Coupons	15 years	9.52	9.55	10.37
6	(8%-10¾%)	20 years	9.48	9.51	10.27
7	High	5 years	9.97	10.01	10.94
8	Coupons	15 years	9.58	9.63	10.55
9	(11%-)	20 years	9.51	9.55	10.43
10	Irredeemables	†	9.59	9.62	10.26
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.97	3.96	3.92
12	Inflation rate 5%	Over 5 yrs.	4.34	4.34	4.12
13	Inflation rate 10%	Up to 5yrs.	3.36	3.36	2.71
14	Inflation rate 10%	Over 5 yrs.	4.17	4.17	3.95
15	Debs &	5 years	11.28	11.32	12.58
16	Loans	15 years	11.10	11.12	12.34
17		25 years	10.92	10.93	12.13

♣Opening index 2392.6; 9 am 2397.9; 10 am 2381.5; 11 am 2380.8; Noon 2388.8; 1 pm 2390.8; 2 pm 2391.9; 2.30 pm 2392.6; 3 pm 2389.0; 3.10 pm 2378.6; (a) 8.48am (b) 4.14pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, Ibex House, 42-47 Minories, London EC3N 1DY. Tel: 071-702 0991.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	68	0	14
Other Fixed Interest	11	1	7
Commercial, Industrial	167	324	1,004
Financial & Property	77	162	536
Oil & Gas	13	26	53
Plantations	0	0	10
Mines	15	48	89
Others	40	42	62
Totals	391	603	1,775

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price p	+or-	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price p	+or-
42	Nil	17/12	2pm	¼pm	♦Corporate Services 40p	[illegible]	
230	Nil	20/12	26pm	16pm	Morrison (W) Supermkts	16pm	-1
84	Nil	23/12	4pm	¼pm	Pict Petroleum 5p	¼pm	
7½	Nil	17/12	3pm	½pm	Ross Group 5p	½pm	
150	Nil	16/12	1½pm	1½pm	St. Davids Inv Inc	1½pm	
40	Nil	16/12	14pm	12pm	TIP Europe 5p	13pm	-½
5	Nil	20/12	1½pm	¼pm	♦Union Square 1p	¼pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. u Forecast or estimated annualised dividend rate, cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1990-91. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ♦ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium. * Unregulated collective investment scheme. ■ Unit comprising of 5 Ords and 1 Warrant.

TRADITIONAL OPTIONS

● First Dealings Dec. 2
● Last Dealings Dec. 14
● Last Declarations March 5
● For settlement March 16

For rate indications see end of London Share Service

Calls in Aegis, Airbreak Leis., Albert Fisher, Amber Day, Aran Energy, British Telecom New, Burton, Casket, Medeva, Tarmac, Ultramar and S.W. Wood. Puts in ADT and Laura Ashley. Puts and calls in ADT, Midland Bank and RTZ.

LONDON TRADED OPTIONS

Option		CALLS Jan	CALLS Apr	CALLS Jul	PUTS Jan	PUTS Apr	PUTS Jul
Allied Lyons (*584)	550	42½	63½	69½	6½	15	24½
	600	13½	34½	42½	27½	36½	45½
	650	2½	16	24½	67½	70½	77½
...	[illegible]						

Option		CALLS Feb	CALLS May	CALLS Aug	PUTS Feb	PUTS May	PUTS Aug
BAA (*506)	500	26	44½	50	13½	18½	26
	550	8	18	21	45	49	55
...	[illegible]						
Glaxo (*784)	750	37½	73½	101	6	29½	37½
	800	10½	46½	75½	25	50½	57½
Brit Aero (*331)	330	18	22	29	16	28½	30½
	360	7½	11½	17½	34½	48½	50½
Hawker Sidd. (*726)	700	27	43½	58½	¼	4½	9½
	750	3½	10½	17½	23½	26½	31½

Option		CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
Hillsdown (*169)	160	9½	16½	19½	1¼	3½	[illegible]
	177	-	7	-	-	11½	[illegible]
...	[illegible]						

December 11 Total Contracts 22,351. Calls 10,005 Puts 12,346. FT-SE Index Calls 2,536 Puts 4,236. Euro FT-SE Calls 10 Puts 260. Eurotrack 100 Index Calls 2 Puts 0. *Underlying security price. † Long dated expiry months. Premiums shown are based on middle prices.

TRADITIONAL OPTION 3-month call rates

	p		p		p		p		p
■ INDUSTRIALS		Charter Cons.	42	ICI	95	Reed Intl	35	MEPC	42
Allied-Lyons	50	Comm Union	40	Ladbroke	21	Sears	8½	Mountleigh	4
Amstrad	6	Courtaulds	38	Legal & Gen	33	SmKl Bchm A	53	■ OILS	
Astec (BSR)	5	Eurotunnel	50	Lex Service	16	TI	39	Aviva Pet	3
BAT Inds	53	FKI	5	Lloyds Bank	30	TSB	11	BP	26
BOC	48	FNFC	10	Lonhro	20	Tesco	21	Burmah Castrol	47
BTR	33	Forte	21	Lucas Inds	12	Thorn EMI	65	Conroy Pet	8
Barclays	34	GKN	28	Marks Spencer	21	T & N	14	Gaelic Res	1
Blue Circle	20	Gen Accident	43	Midland Bank	20	Unilever	60	Premier Cons	4
Boots	33	GEC	16	NatWest Bank	26	Vickers	16	Shell	40
Bowater	55	Glaxo	110	P & O Dfd	41	Wellcome	60	Tuskar Res	1
Brit Aerospace	35	Grand Met	67	Racal Elect	6	■ PROPERTY		Ultramar	20
British Steel	10	GRE	14	RHM	23	Brit Land	27	■ MINES	
Brit Telecom	33	Hanson	17	Rank Org	55	Control Sec.	2	RTZ	46
Cadburys	35	Hawker Sidd	55	Ratners	12	Land Sec.	41		

COLLAPSE OF THE MAXWELL EMPIRE

Banks given choice to limit damage or lose all

BANKERS WERE visibly shaken when they received the report of accountants Coopers & Lybrand Deloitte on the finances of the late Mr Robert Maxwell's private companies.

At the crisis meeting called on December 3, Coopers did not pull its punches.

The cover on the report looked harmless enough. It said "Russet – second presentation to bankers". Russet was the code name for Headington Investments, one of the top companies in the Maxwell private empire.

After making a few anodyne remarks about their progress in marshalling information, the accountants launched the *missile that would lead* – within just two days – to the Maxwell private empire being put into administration, under UK insolvency legislation.

"Inter-company indebtedness far higher than expected at 25 November", was the headline on page 2 of the report. Coopers went on to explain that it had discovered that the private companies owed at least £602m to the Maxwell public companies, Maxwell Communication Corporation and Mirror Group Newspapers, and the public companies' pension funds.

The private companies were therefore insolvent, even if the highest possible valuations were put on their assets.

Coopers had uncovered a £244m debt of the private companies to MCC. This debt consisted of five elements:

- A £103m loan to Robert Maxwell Group, one of the master companies in the private empire;
- A £29m loan to Headington Holdings, another private company;
- A £64m loan note issued to MCC by IW Corporation, a *company based in Delaware*, the US tax haven. The IW loan note was in turn a liability of Robert Maxwell Group;
- £24m due for payment to MCC *in March 1994 on the sale* of an asset with the name of *Logocourt*;
- A further £24m owed to MCC on the sale of a property *in London's Worship Street*.

Coopers also identified that MGN was owed £47m. *This* money was transferred to London & Bishopsgate Group, an investment company controlled by Mr Robert Maxwell, and £38m of it was supposed to have been invested in gilts for *the account of MGN. Coopers* is not sure what happened to the £47m.

Subsequently, MGN has discovered that a further £50m has gone missing.

In addition, Coopers said that £311m was owed to Bishopsgate Investment Management and Bishopsgate Investment Trust, two investment management groups controlled by Mr Robert Maxwell. Most of this was in fact an indirect debt to the Maxwell public company pension funds. Coopers added that a further £118m of shares had been lent to the private companies by Bishopsgate Investment Management.

Another important line in the report read: "All borrowed stocks pledged to support bank borrowings of Headington". What this meant was that banks' *right to certain lines of* collateral might be disputed. As it has turned out, the Maxwell pension funds are likely to take legal action claiming that they *are the proper owners of* many of these "borrowed shares" – so banks risk losing their collateral.

The next chapter in the report was on *the estimated* financial position of the private companies.

Having discovered the loans to the public companies and pension funds, Coopers estimated that there was a shortfall of between £286m and £500m between the value of the private companies' assets and their debts.

However, at the time it *admitted that this was an* underestimate. The valuations of the private companies' assets by Bankers Trust were almost certainly too high.

In addition, a substantial portion of the private companies' assets are their controlling shareholdings in MCC and MGN.

Coopers *did not take account* of the significant fall in the *value of MCC and MGN caused* by the withdrawal of more than £700m in total from these companies' accounts and the accounts of their pension *funds*.

In other words, creditors of the private companies face losses which are likely to be at least twice as great as the £500m specified by Coopers.

So which creditors are likely *to bear the losses? The answer* depends on which creditors have valuable collateral for their loans.

Coopers identified nine banks and one syndicate of banks with collateral whose value was at least as great as the value of their loans, totalling £655m.

A further eight banks and three syndicates had security worth just £251m to cover loans of £478m. The banks in this group included Lloyds Bank, from the UK, Citibank, of the US, Swiss Bank Corporation, Banque National de Paris of France, and three syndicates.

A final group of banks had no security for £45m of loans. These included two Japanese banks, Long Term Credit Bank and Sumitomo Trust and Banking, with loans of £13m and £12m respectively.

However, even this analysis was probably too optimistic for two reasons:

- Banks held 512m MCC shares as security. Bankers fear these shares may be valueless. *National* Westminster Bank has 83.2m MCC shares as security. A lending syndicate, led by Lloyds, has 187m MCC shares as security against a *£170m loan to a Maxwell special purpose vehicle*, called Visaford. Another lending syndicate has 118.6m MCC shares as security against a £100m *loan to another vehicle*, PHA Finance;
- Coopers identified £156m of security held by banks which may be owed to the pension funds or the public companies. If banks are deprived of this security, they will face even bigger loan losses.

In the penultimate chapter, Coopers assessed the cash needed by the private companies to continue trading till January 3. It estimated that the diverse range of operations would consume £17m, even before making interest pay*ments on bank debt of £970m*.

It said the New York Daily News, the US tabloid newspaper, was likely to need £5m in the period. The European, Mr Maxwell's ambitious pan-European newspaper, was likely to consume £3m. In addition, Robert Maxwell Group would require £4m.

Then followed the appalling conclusions.

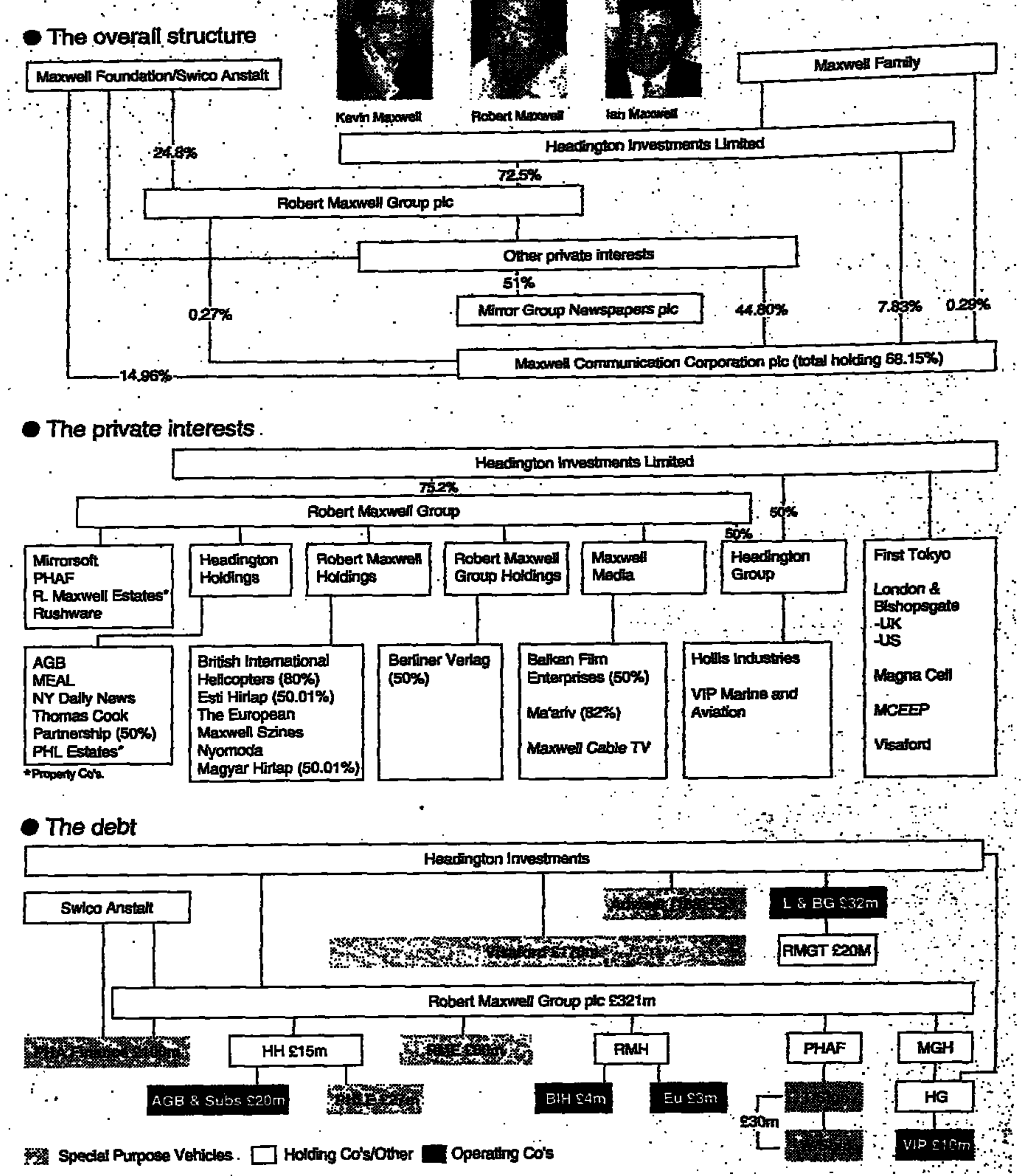
Coopers said the private companies needed a cash injection of £400m. They also required the banks to freeze repayments on loans and possibly also waive interest payments.

In addition, the loans from the public companies and pension funds would have to be converted into share capital.

The bottom line was devastating. The report spelled out in two simple words what would happen if these conditions were not met: "Survival impossible".

Robert Peston

The Coopers' report on Maxwell private companies: Codename Russet



Bank debts of private interests now amount to £970m

THE preliminary report on the state of the late Mr Robert Maxwell's private businesses, presented on November *19 to* his bankers, said that the private interests had debt of £885m – bank debts are now £970m – and that the main operating subsidiaries were largely lossmaking.

The report by investigators from Coopers & Lybrand Deloitte, said that all bank facilities were fully drawn. That sheds light on why, in the months before his death, Mr Maxwell turned to the bank *balances and pension funds of* his public companies for cash – as Coopers' December 3 report finally uncovered.

It is now clear that more than £700m was taken from Maxwell Communication Corporation and Mirror Group Newspapers and their pension funds, although some may be recovered.

A *single page headed* "Russet – the current problem" lays out the fragility of the whole empire. Russet is the code name for the private interests. It says "the principal collateral, MCC shares, has *fallen in value by about £500m* since the death of Robert Maxwell". That means that any event that triggered the fall of the *MCC share price* – as well as Mr Maxwell's death – could have precipitated the collapse of the private businesses.

The losses of the private businesses show how difficult is the bankers' task now of *finding buyers*.

The main private businesses are:

- AGB, the market research company, valued by Bankers Trust at £20m;
- the New York Daily News, which Mr Maxwell rescued from closure earlier this year, valued at £13m;
- The European newspaper, at £27m;
- Berliner Verlag, the Berlin-based newspaper and magazine joint venture with German publisher Gruner & Jahr, valued at £22m;
- a stake in British Interna*tional Helicopters, a North Sea* helicopter business valued at £20m;
- 82 per cent of Ma'ariv, the second largest Israeli newspaper, valued at £15m.

However bankers have chal*lenged these valuations as too* optimistic.

Bertlesmann, the German media giant which owns Gruner & Jahr, *is interested* in buying the other 50 per cent of Berliner Verlag, and the report also says there is "third party interest". If it did buy Berliner Verlag, it would have to find another £10m a year to fund its *cash outflow, according to Coo*pers.

Coopers expects that "AGB and Thomas Cook Travel Inc (the US travel business valued by Bankers Trust at £30m) will take longer" to sell than other *businesses*.

The report also identifies £211m of property assets, which are fully-charged to the banks.

"Russet" has £885m of bank debt, of which roughly two thirds is long-term bank agreements. Some £711m of the loans were technically in breach at the time of the report.

*Much of the debt is in finan*cial holding companies within the empire, which have little or no cashflow coming in from businesses.

That emphasises how dependent the private empire was on the dividend from MCC, and from mid-1991, MGN. Even with £35m of dividend and rental income, the private companies would have had a net *cash outflow of £127m in 1992*, the report predicts.

Intriguingly, the chart of the shareholding of MCC shows that subsidiaries of Headington Investments own only 52.9 per cent of MCC.

The Maxwell Foundation and Swico Anstalt, two Liechtenstein-based organisations whose ultimate beneficiaries are hidden, own 14.96 per cent. Of the £95m *MCC* paid in dividends in its last financial year, *the Liechtenstein bodies would* have received £14.2m.

The bankers and administrators have not yet accounted for all the money consumed by the private companies, *and the* question of how much flowed into Liechtenstein and other Gibraltar-based trusts and companies remains high on their list of questions.

The report says that the *private companies would "eat up"* around £29m cash in the three months to the end of February. That confirms earlier estimates that the private companies were *losing* nearly *£150m a* year, and answers some questions about where the public companies' money has gone.

UNSECURED BANKS

Debt £m	Bank	Deficit £m
13	LTCB	(13)
12	Sumitomo	(12)
5	Lloyds	(5)
15	Others	(15)
45	TOTAL	(45)

The report makes clear that the private company accounts had not yet been matched up with inter-company and "connected" company balances – when that was done, the extraction of cash from the public companies was revealed.

Coopers say, in a disclaimer to the report that "Kevin Max*well and Michael Stoney* (a director of some private Maxwell companies) have confirmed that there are no material inaccuracies or omissions *in this presentation*." However by the end of that week, the *accountants and bankers had* uncovered a further £700m of debts to the public companies and their pension funds. That was the factor that finally pushed the private companies into administration.

Bronwen Maddox

PARTIALLY SECURED BANK DEBT

Debt (£m)	Bank/ Syndicate	--Security-- Clean title	BIM/ BIT	Total	Deficit
20	Lloyds	16		16	(4)
18	Citibank	9		9	(9)
53	SBC	46		46	(7)
32*	Lehman	3	15	18	(14)
30	BNP	22		22	(8)
170	Visaford	67		67	(103)
100	PHAFinance	43		43	(57)
55	TCT Contingent	30		30	(25)
478	TOTAL	236	15	251	(227)

* Lehman's exposure now nil

FULLY SECURED BANK DEBT

Debt (£m)	Bank/ Syndicate	--Security-- Clean title	BIM/ BIT	Total	Surplus
155	NatWest	197	17	214	59
50	Credit Suisse	15	66	81	31
30	Goldman Sachs	58		58	28
26	Midland	41		41	15
27	Barclays	57		57	30
20	SVB		23	23	3
14	BNP		28	28	14
14	Societe Generale	14		14	-
1	Credit Commerciale		7	7	6
80	RME	132		132	52
30	Ancillaries				(30)
447	TOTAL	514	141	655	208

Questions raised concerning the market in MCC shares

THE LIKELIHOOD that shares in Maxwell Communication Corporation are now worthless is prompting investors and banks to look closely at whether adequate information was given to the stock market in the past year, and whether the Stock Exchange and MCC's stockbrokers fulfilled their responsibilities.

In particular, bankers who took MCC shares as collateral for loans are beginning to consider whether *the London Stock Exchange* and MCC's advisers monitored trading in MCC thoroughly, and whether the narrowness of the market in MCC shares left the share price open to *manipulation*.

One investor, who has asked not to be named, has an inch-thick file of correspondence with the Stock Exchange, the Department of Trade and Industry, MCC's stockbrokers Smith New Court and Goldman Sachs, the US investment bank, about losses he suffered in selling MCC shares "short" – speculating that they would fall.

In addition, two institutions which went short of MCC shares and at first saw the price rise sharply and inexplicably, have questioned internally *whether the MCC share price* market needed closer, formal investigation.

Their scrutiny focuses on several points:

- Mr Robert Maxwell appeared to control over 82 per cent of MCC shares at the time of his death, in apparent breach of the Stock Exchange rule that at least 25 per cent must be independently floated.
- The "free float" in the shares was even less than 18 per cent, given the slices held by index and yield funds, which trade little. Should illiquidity in the market have led to MCC's exit from the FT-SE 100?
- Sudden, large, unexplained movements in the share price.
- Whether the put option which Mr Maxwell sold to Goldman Sachs, the US investment bank, in the *summer* of 1990 was a way for Mr Maxwell to buy more shares during MCC's "close period" when directors are forbidden from dealing.
- Whether Mr Maxwell engaged in a so far unrevealed share support operation, as his bankers now suspect.
- Whether Mr Maxwell tried to keep the MCC share price artificially high. As private companies' debt was secured against MCC shares, a fall in those shares could have triggered a collapse in the empire, it can *be seen in retrospect*.

It now seems that at the time of Mr Robert Maxwell's death on November 5, he owned or controlled over 80 per cent of the issued MCC shares. Since early in 1991, the Liechtenstein-based Maxwell Foundation, Maxwell-controlled private companies, and the Maxwell family owned 68 per cent of the shares.

The pooled pension funds of the Maxwell companies appeared to have owned a further 12 per cent. By the time Mr Maxwell died, much of this stake had been pledged to banks as security for their loans to his private companies.

Mr Maxwell was treating these shares as if they were under his control – nor were they available to be traded on the stock market, although *the pension funds retained* the right to cast the votes.

There appears also to have been 10m shares, or 1.5 per cent, in an employee share incentive scheme.

Legal opinions differed, however, on whether Mr Maxwell had an interest in these pension funds' shares under the Companies Act. This is one of several matters of interpretation of company law referred by the Stock Exchange to the Department of Trade and Industry to investigate.

The 82 per cent owned or controlled by Mr Maxwell by November is greater than the London Stock Exchange's ceiling of 75 per cent ownership, one of its rules for listed companies, which attempts to support liquidity in dealing.

The Exchange did *not formally* recognise the extent of Maxwell control. That appears to have been because the pension funds retained beneficial ownership of their 12 per cent – *even though Mr Maxwell's* bankers had a security interest over them. However institutions have commented that as Mr Maxwell's declared holding was nearing the 75 *per cent ceiling, the Exchange* should have investigated the ownership carefully.

The Exchange refuses to discuss the case in detail. However, Mr Peter *Rawlins, chief executive, said that* whether Mr Maxwell should have been judged to have an interest in the shares – and therefore whether or not the company had breached *the Exchange's own listings agreement* – was a matter for other authorities to decide. "The question here is one of interpretation of company law, and the DTI is the competent authority *with relation to company law*," he said.

The narrowness of the market meant that the share price would be peculiarly susceptible to manipulation. The Stock Exchange has received at least one formal complaint from an investor about the "put option" sold by Mr Maxwell to Goldman Sachs in August 1990.

The option gave Goldmans the *right to sell Mr Maxwell 15.6m MCC* shares at 185p in early December and so gave them an incentive to buy shares in the market, which would have been likely to help the *share price. Goldman Sachs has said* it already had enough shares to satisfy the option; it then gave them an incentive not to sell.

The option was exercised – and *Mr Maxwell acquired full title* to the shares – shortly after the end of the "close period" when he, as a director of MCC, was forbidden to buy shares himself because of imminent price-sensitive announcements.

This issue was one of several considered by the Stock Exchange and the Department of Trade and Industry, which also considered some of *the abrupt price jumps*.

The Exchange itself was obliged to force MCC to disclose full details of the arrangement, which were finally published to the stock market on *September 6 1990 and sent out as* MCC press releases, three weeks after the agreement was reached. This followed a dispute with the company over whether company law required the announcement to be made – another matter later referred to the DTI, Mr Rawlins said.

The option was also investigated by the Securities and Futures Authority, the chief regulator of the securities industry. *Mr John Young*, chief executive, said that "two or three instances" of dealing in Maxwell shares were referred to the DTI for investigation.

The DTI has said *it* cleared Goldman Sachs of responsibility in the process of appointing the firm *as* brokers to the flotation of the second tranche of British Telecom this month.

Bankers and shareholders have *begun to ask whether the Exchange* or DTI should have tried to take a overall view of MCC, as well as investigating individual events – and how long an investigation *should take*.

Mr Maxwell's bankers now suspect that some of the £600m missing from the accounts and pension funds of MCC and MGN was used by him to buy shares over the *summer to support* the price and prevent loans to his private companies, which were secured on MCC shares, being plunged into default. If that is eventually proved, it will raise *further* questions about whether there was a normal market in MCC shares.

Bronwen Maddox
Richard Waters

Swiss banks misled in complex chain of transactions

MR ROBERT MAXWELL misled two of Switzerland's biggest banks, Credit Suisse and Swiss Bank Corporation, in order to obtain funds to prop up his private empire. *That is the conclusion of an* investigation by SBC, advised by the accountants, Coopers & Lybrand Deloitte, details of which emerged yesterday.

An astonishingly complex chain of financial transactions began on July 3 1991, when SBC provided a loan facility of £60m to Adviser (188), a vehicle set up specially by Mr Robert Maxwell to make a takeover *bid for First Tokyo* Index Trust.

First Tokyo was an investment trust, managed by London & Bishopsgate International Investment Management (LBI), another company controlled by Mr Robert Maxwell.

The lending agreement required that £52.9m of Japanese shares owned by First Tokyo would be pledged as collateral.

However, the collateral could not be given to SBC until First Tokyo had been transformed into a private company, which would take several weeks. If SBC had been given the shares earlier, there would have been a breach of the Companies Act.

But to ensure that it did get the shares *eventually*, a separate clause of the agreement prohibited Adviser (188) from disposing of the shares.

On August 6, Adviser (188) drew down £55.8m of the SBC facility. However, even at that time, events *had taken a turn* which would make it difficult for SBC ever to receive the shares.

At the end of July, Mr Robert Maxwell gave instructions that First Tokyo's portfolio of shares should be liquidated. The first sale took place on August 1.

The disposal raised £18.4m and the proceeds apparently went to Maxwell Communication Corporation, the Maxwell *public company*. First Tokyo debited the transfer to Maxwell private companies.

However, it dawned on directors of the Maxwell private empire that the original board of First Tokyo had not yet been replaced. This was an embarrassment, because the board had required in early 1991 that the First Tokyo portfolio should be frozen.

As a result, LBI was forced on August 5, to repurchase an *identical portfolio of shares*. The First Tokyo board was then replaced and the £16.4m portfolio was sold once again, on August 15.

In the meantime, most of the rest of the First Tokyo portfo*lio was used as security for* borrowings by Maxwell private companies.

On July 31 and August 22, blocks of the First Tokyo portfolio – with an ultimate sale value of £29.1m – were sent as collateral *to another* Swiss bank, Credit Suisse. On August 27, another block, worth £4.6m, is believed to have been sent as collateral to Lehman Brothers, which later sold them.

If Credit Suisse and Lehman had realised that these Japanese shares had already been promised to SBC, they would not have taken them.

Between September 5 and October 17, the shares held by Credit Suisse were sold. The proceeds were apparently transferred to a cash collateral account at Credit Suisse.

Credit Suisse said yesterday *that it did not believe the cash* was held in its accounts. However, it confirmed that it did hold the portfolio of Japanese shares for a period.

According to SBC and Coopers, Credit Suisse was then given collateral in a different form. So the £29m proceeds of the share sales were transferred back to the Maxwell private companies and from there *some of money was paid to* Paribas, the French bank, and some to Smith New Court, the UK broker.

In early October, Mr Robert Maxwell was *told* by a colleague that they faced a predicament. They no longer owned the shares promised to SBC.

On October 30, therefore, Adviser (188) told SBC that it would repay the loan, rather than deliver the Japanese shares. However it could not *obtain the funds to do this*.

So on November 5, the day of Mr Robert Maxwell's death, Adviser (188) tried to withdraw its offer to repay the *loan*. However, *SBC told* Adviser (188) that this was not possible, the repayment offer was irrevocable.

SBC then passed on documents *to the Serious Fraud* Office, which announced on November 18 that it was investigating how the security for the £55.8m loan had disappeared.

Since then, the SFO enquiry has broadened to include the removal of £700m funds from the main Maxwell public companies *and their pension* funds.

UK COMPANY NEWS

Granada declines sharply to £57m

By Raymond Snoddy

GRANADA, the leisure, television and computer services group, yesterday announced the expected sharp drop in profits to £57m compared with more than £120m pre-tax in 1990.

Mr Alex Bernstein, chairman, conceded yesterday: "Clearly the results show that we had an extremely disappointing year."

The chairman blamed the fall in profit on difficulties caused by the severe recession in the UK, continuing losses in the company's computer maintenance business and losses at the Canadian rental business which has now been sold.

Mr Bernstein argued that Granada's worst problems were now over. Not only had the Canadian company been sold but the computer maintenance division had been restructured and was now in profit.

Granada Television retained its franchise with an annual bid of £9m, and Granada said yesterday that British Sky Broadcasting – in which Pearson, owners of the Financial Times, also has a significant stake – is expected to break-even in operational terms by the end of 1992.

Analysts appeared willing to give Granada the benefit of the doubt yesterday and the share price moved up 11p before falling back to a 3p gain on the day.

Analysts are now predicting pre-tax profits of between £90m and £100m for 1992.

Turnover at £1.39bn was the same as last year, although gearing was reduced from 97 per cent to 50 per cent following the sale of the group's bingo clubs in May.

A final dividend of 4.5p is proposed making a total of 7p for the year compared with 12.3p in 1990. Earnings per share fell from 21.8p to 7.5p, or 9.9p fully diluted.

The company suffered net extraordinary costs of £29.3m caused by disposals of loss-making activities, write-downs in leisure and commercial rental and in applying for the new television licence.

Mr Gerry Robinson, the new chief executive who joined Granada from Compass Group last month, agreed yesterday that the results were disappointing but they amounted to a clean sweep.

"There were a number of issues that we got wrong but we have now either got it right or are getting it right," said Mr Robinson, who believes that Granada's main businesses are now strong.

Analysts forecast that the computer maintenance division could make profits of between £8m and £10m this year.

Mr Robinson is now carrying out a detailed review of costs throughout the company including Granada Television. As a result some jobs will go across the group.

Ferranti loss grows to £28.8m

By Charles Leadbeater, Industrial Editor

TAXABLE LOSSES at Ferranti International, the troubled electronics group, rose by £8.4m to £28.8m in the six months to September 30.

Turnover fell to £212.4m (£251.2m), although turnover in the businesses Ferranti retained at the period-end was only £8.4m down on the first half of 1990.

The pre-tax loss increased despite a drop in restructuring charges – exceptional charges were down at £11.3m (£12.4m) to cover redundancies.

The company has been in the throes of a far-reaching industrial and financial restructuring since its discovery two years ago of a £215m fraud in International Signal & Control Group, its US defence subsidiary.

The workforce was reduced by 18.2 per cent to 7,410 in the first six months. The sale of several Ferranti businesses, including its missile business to the General Electric Company, have allowed it to simplify further its structure, eliminating the three divisions created last year with the installation of a more decentralised management system.

The company's balance sheet deteriorated further with net current assets down to £62.2m (£110.5m) and the total value of assets fell by £98.8m to £190m.

The loss per share rose from 2.59p to 3.15p. Again the directors have recommended that no interim dividend be paid.

ERF back into the black

By Kevin Done, Motor Industry Correspondent

ERF, the UK heavy truck maker, achieved a small pre-tax profit in the first half of its current financial year reversing 18 months of losses.

Its performance in the six months to end September, was better than feared by analysts and the share price closed 23p up at 163p.

The company achieved a pre-tax profit of £330,000 in the six months to end September compared with a loss of £1.37m in the corresponding period and a loss of £4.47m in the 12 months to the end of March.

The interim dividend is unchanged at 2p per share.

Mr Peter Foden, ERF chairman and chief executive, said that the return "to an approximate break-even position" after last year's trading losses had been achieved "by strict cost control and prudent marketing in a very severe recession."

Group turnover rose in the first half to £58.42m from £53.31m in the same period a year ago as a result of the jump in foreign sales with the delivery of 280 trucks to Zimbabwe in the period.

Exports, which more than offset the continuing sharp decline in UK demand, accounted for 35 per cent of sales

Vehicle deliveries under the Zimbabwe export contract will be completed by the end of January however, and the company said it was making "increased efforts" to expand its exports

The overall vehicle sales volume declined by 3.4 per cent to 1,094 in the six months from 1,132 in the same period a year ago. Exports almost tripled to 389 from 131, while domestic sales fell by 29.6 per cent to 705 from 1,001 a year ago.

The decline in ERF's UK truck registrations by 36.4 per cent in the first 11 months of 1991 has been in line with the sharp 36.2 per cent fall in the overall heavy truck market (above 15 tonnes), and ERF has held its market share.

Mr John Hobbs, finance director, said the company was now far less confident than six months ago about a recovery in UK economic activity in the second half of its year.

Ultramar steps up bid defence

By Michiyo Nakamoto

ULTRAMAR, the diversified oil and gas group which is facing a hostile bid from Lasmo, stepped up its defence against the rival oil group with a further circular to shareholders a week before the bid closes on December 18.

In its circular Ultramar points out that the value of Lasmo's largely paper offer has reduced from the original value due to the fall in the predator's share price.

It also questions Lasmo's failure to make a profits and dividend forecast for 1991, saying that an assessment of prospects was obscured by confusing signals from Lasmo.

Lasmo had indicated that it was not making a profit or dividend forecast because it believed the City was well informed on its prospects for 1991 and was comfortable with what analysts were expecting.

It also made statements that suggested it had had discussions with parties interested in acquiring Ultramar's downstream assets, should its offer go through.

Lasmo was requested by the Takeover Panel to clarify its position regarding those statements and said that it did not endorse any forecast and that there had been no material change since its listing particulars on October 21, which included statements regarding its current trading and prospects.

Lasmo also stated that "no substantive negotiations have taken place" on disposals.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Albion ....fin	1.3	Mar 12	1.5	2.5	3.2
Anglo United ....int	0.2†	Mar 31	0.2	-	1.6
Automagic ....fin	nil	-	4.25	0.5	6.5
Baggeridge Brick ....fin	2.375	Feb 12	2.375	3.125	3.125
Berkeley ....int	1.5†	Feb 7	1.5	-	4.5
Blick ....fin	5.4†	Mar 11	4.5	8	7
Bulmer (HP) ....int	3.45	Feb 24	3.2	-	8.35
Cronite ....fin	nil	-	2.5	nil	4
ERF ....int	2	Jan 31	2	-	5
Fuller Smith A ....int	2.25	Jan 23	2.1	-	6.1
Granada ....fin	4.5†	Apr 1	7.9	7	12.3
Greenalls ....fin	6.6	Feb 10	6	11	10
Greenalls A ....fin	1.32	Feb 10	1.2	2.2	2
Northern Elect ....int	5.55	Mar 24	-	-	11.38
Plysu ....int	1.65	Feb 4	1.35	-	4.5
Scottish Power ....int	3.38	Mar 12	-	-	-
Severn Trent ....int	6.4	Apr 1	5.85	-	17.55
Wardell Roberts ....int	1.27♣	Jan 20	1.21	-	3.14

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ♣Irish currency.

Cronite disposal will reduce debt

By Richard Gourlay

Cronite Group, the Midlands metal processor, yesterday announced the sale of its steel stockholding subsidiary to United Engineering Steels, the joint venture between British Steel Corporation and GKN.

The sale of Cronite Steels for £3.5m will reduce Cronite's debt from £6m to less than £3m and gearing of 114 per cent to about 50 per cent.

Cronite also announced pre-tax losses for the year to September of £1.96m, against profits of £1.22m. Sales were £11.6m lower at £35.1m, with most of the fall due to discontinued businesses. Losses per share were 11.4p (7p earnings), and the dividend is being passed.

Mr Jim Butler, chairman, said the reduction in debt would clear the way for a capital restructuring that would allow Cronite to return to the dividend list, although this was not a forecast that one would be paid.

Brent Walker seeks £292m from GrandMet

By Roland Rudd

BRENT WALKER, the troubled leisure company, yesterday issued a claim for £292m against Grand Metropolitan over its purchase of the William Hill and Mecca betting shop businesses.

Sir Allen Shepherd, GrandMet's chairman, has dismissed the claim as "nonsense" and is demanding the further £50m final instalment owed by Brent Walker.

Brent Walker wants the issue to go to an independent arbitrator. GrandMet said it was willing to allow the issue to be decided by a third party, as stipulated under the sale and purchase agreement.

Brent Walker, which had losses of £134m before tax in the 28 weeks to July 14, says that under the 1989 purchase contract any shortfall in pre-tax profits below £55.6m would be paid by GrandMet multiplied 12.82 times.

Since the audited pre-tax figure for the betting shops in their first financial year under Brent Walker's ownership were just £38m, the company is claiming £212m. It is also claiming another £40m in interest and a further £40m for alleged broken warranties.

Mr Ken Scobie, Brent Walker's chief executive, said: "GrandMet have been treating this claim as some figment of the imagination of Mr George Walker [the former founder and chief executive of the group]. It is a substantial claim which we want GrandMet to take seriously."

GrandMet has suggested settling for sums which Mr Scobie called "frivolous". However, GrandMet said it regarded the amount claimed by Brent Walker as "ridiculous".

Greenalls ahead of forecasts with 3.1% advance to £64.1m

By Philip Rawstorne

GREENALLS Group, the pub retailer and hotelier, increased pre-tax profits by 3.1 per cent to £64.1m (£62.2m) in the year to September 27, its first full year since its withdrawal from brewing.

Mr Christopher Hatton, chairman, hailed the results, which were ahead of most market forecasts, as evidence that the group's choice of strategic direction had been correct and timely.

Strong growth from all divisions except hotels lifted trading profits by 8.2 per cent to £54.1m (£50m) on turnover down from £497.5m to £471.5m.

Operating profits of the group's UK hotels fell 14.9 per cent from £18.3m to £15.6m under the impact of the Gulf war and recession. Hotels in the US posted a loss of £665,000 against the previous year's £115,000 profit.

Profits from pubs increased 15.5 per cent to £44.8m (£38.8m) with sales in the 494 managed houses 5.9 per cent ahead and margins improving from 43.4 per cent to 45.2 per cent.

Premier House, the catering inns and restaurant division, pushed profits 12.8 per cent higher from £5.71m to £6.44m.

Off-licences – now being increased to 500 outlets with the £20.4m acquisition of Blayneys from the Vaux Group – recorded a profit growth of 21.4 per cent from £2.75m to £3.33m. Drinks and services lifted profits 39.1 per cent to £6.39m (£4.59m).

Redundancy and reorganisation costs added to group borrowings, up from £155.7m to £159.5m, and gearing at the year end was 20.1 per cent (19.9 per cent).

Fully diluted earnings per share grew by 8 per cent to 28.2p (26.1p). A final dividend of 6.6p is proposed for an 11p total.

Recession behind 17% fall to £3.6m at Fuller

By Philip Rawstorne

A 17 per cent decline from £4.33m to £3.61m in first half pre-tax profits from Fuller Smith & Turner "reflected the severity of the recession", the London-based brewer said yesterday.

Strong volume gains in the brewer's own beers, however, left the company well-placed to make further market penetration in any economic recovery, said Mr Anthony Fuller, chairman.

Turnover for the six months ended September 28 rose to £38.3m (£34.m) but operating profits were flat at £3.92m (£3.96m).

Beer division profits rose £800,000, driven by a 13 per cent increase in the group's own beer brands. Volumes of London Pride cask ale were up 31 per cent, and Chiswick Bitter 18 per cent higher. Sales to the free trade showed a 47 per cent rise on last year's volume.

Total volumes in the brewer's tied estate were down 4 per cent, in spite of the 44 additional pubs bought last year, and were a measure of the drop in customers' purchasing power, said Mr Fuller.

Profits of the 75 managed houses fell by more than £200,000.

The wines and spirits division posted a £130,000 decline in profits; and hotel profits were £300,000 lower.

Mr Fuller said: "The group intends staying in the hotel business and has sites available for further expansion when the end of the recession can be more certainly predicted."

With gearing of only 5 per cent, the group also had the means to make major pub acquisitions at the appropriate time and price, he added.

Earnings per share grew to 11.62p (11.54p) and the interim dividend is raised from 2.1p to 2.25p.

Market growth for Bulmer up 12% to £9m

Continued growth in the UK cider market despite the recession and a bad summer enabled H. P. Bulmer Holdings to raise first half pre-tax profits from £8.07m to £9.07m, writes Phip Rawstorne.

Turnover rose 5 per cent to £115.54m (£109.9m) for the six months to September 30.

Mr John Rudgard, chief executive, estimated that Bulmer's UK cider volumes had increased 4 per cent in line with the market. Perrier sales recovered only 50 per cent of volumes prior to the withdrawal of stocks last year.

Operating profits on the UK drinks business rose to £9.65m (£9.53m) on turnover of £102.16m (£97.81m).

Strongbow led a 39 per cent surge in Australian sales from £3.91m to £5.44m, which doubled profits to £478,000.

Earnings per share grew by 19 per cent to 10.8p (9.1p) and the interim dividend is lifted from 3.2p to 3.45p.

UK COMPANY NEWS

Scottish Power profits rise to £81.9m midway

By Juliet Sychrava

SCOTTISH Power, one of the two integrated Scottish electricity companies, yesterday reported profits of £81.9m for the six months to September 30, against £71.7m pro forma which excludes a £61.9m exceptional loss relating to restructuring costs.

Earnings per share were 7.94p against 6.03p pro forma before exceptionals. The dividend per share was 3.38p, against 3.07p pro forma.

Turnover rose 12.6 per cent to £599.9m, mainly because of a 6 per cent increase in its tariff prices. Unit sales in the company's local market fell 1.5 per cent, after industrial plant closures. However, domestic and commercial sales were 1.5 per cent higher.

In England and Wales, the company sold nearly 40 per cent more electricity to the pool or wholesale market and gained several large customers, notably ICI on Teeside. Turnover in retail was up 40 per cent.

Operating margins dipped from 17 to 15.9 per cent, as the company faced rising costs, notably from its contract to take power from Scottish Nuclear, and wage increases. It offset this by cutting its coal costs.

Job losses totalled around 500 since the end of March. The company expects to cut its total salary bill by £10m by year-end. Working capital management cut the interest charge by £5.8m.

Net borrowings were £186m compared with £248m pro forma at March 31. Gearing is 31.6 per cent, against 51.4 per cent pro forma at March 31. Capital expenditure for the full year is expected to rise £40m to around £150m, as spending on the interconnector linking the Scottish grid with England and Wales.

Northern Electric at £26m

By David Lascelles, Resources Editor

HIGHER electricity volumes helped Northern Electric, the distribution company covering the north-east, to raise pre-tax profits by 10 per cent in the half year ending September 30.

The company yesterday reported a pre-tax result of £26m, up from the pro-forma £23.6m a year earlier.

Mr David Morris, chairman, said the rise had been achieved in spite of the unusually high costs of electricity purchases in the period. The result reflected "the encouraging and continued growth in the volume of units distributed through our network".

He added that with demand traditionally higher in the second half, and the regional economy holding up comparatively well, he was confident that Northern could achieve its full year profit growth expectation of over 25 per cent.

An interim dividend of 5.55p is declared, payable from earnings of 5p per share. Mr Morris said that when the final dividend was determined, account would be taken of the company's strong financial performance and the encouraging earnings prospects.

Distribution volumes were up 1.1 per cent overall, with domestic users up 3 per cent and commercial up 4 per cent. But industrial users were down 1.1 per cent, as the company shed some less profitable customers.

Northern Electric has only minimal diversified operations, but Mr Morris said the long-term goal was to raise earnings from this segment to about 10 per cent of the total within five years.

Security Archives gets £17.5m bid from Brambles

By Peggy Hollinger

BRAMBLES Industries, the Australian transport and industrial services group, is moving into the UK security storage business with the £17.5m purchase of Security Archives, the London-based USM company.

Brambles is offering 276p in cash for each Security Archives share. About 38 per cent of Security Archives is held by its chairman, Mr Clive Anderson, who will resign after the deal is completed.

Shares jumped 38p on the announcement to close at 272p.

Mr Anderson said yesterday the purchase by Brambles was ideal for his company. It would allow expansion into Europe through Brambles' extensive international network.

Security Archives also announced a 34 per cent rise in pre-tax profits to £770,000 for the six months to September 30. Mr Anderson said the return had been achieved through strict control over costs and reduced capital expenditure. He added that the group expected to exceed last year's annual profits.

Sales rose almost 16 per cent to £3.7m. The group operates from four warehouses.

Earnings per share rose from 6.7p to 8.2p. The dividend was raised from 3p to 4p.

Henderson Admin joint venture in US

By Norma Cohen,

Henderson Administration, the UK-based fund management group said yesterday it would set up a joint venture in the US to provide international investment products to US investors.

The venture, to be arranged with J&W Seligman would be called Henderson Seligman, with investment management provided by Henderson from London and Tokyo. Henderson said it believed there was considerable demand in the US for international investment services. Currently, US pension funds invested less than 5 per cent of funds internationally.

Small rise at Severn Trent to £137m

By Michiyo Nakamoto

SEVERN TRENT, one of the most active water companies in diversification out of their regulated business, reported a moderate increase in interim pre-tax profits from £135m to £137m in the six months to September 30.

The interim dividend was lifted at the higher end of the range, at 9.4 per cent, to 6.4p (5.85p) per share. Severn's shares, however, lost 1p to 305p.

Mr Roderick Paul, chief executive, said that the company expected the dividend split to be one third in the first half and two thirds in the second half.

Recession in the UK had affected the company's water income only marginally, he said. Water revenue lost as a result of economic weakness amounted to about £2m, out of a total of £342m.

Overall turnover increased 26 per cent to £395m (£313m). Earnings per share crept up to 36.5p (36.2p).

Income from interest fell to £8m (£27m) as capital expenditure rose to £241m (£151m).

Mr Paul said that due to the "extremely advantageous prices" currently available for investment programmes, Severn was planning to spend £550m for the year – ahead of schedule and up from £400m previously.

The expenditure on water was "delivering the results", Mr Paul said. Severn had achieved 99.6 per cent drinking water compliance and 98.7 per cent sewage treatment works performance.

Biffa, the waste management company, contributed £40m to turnover and £5.5m to profit before interest and tax since it was acquired for £212m in May.

Netherlands growth helps Plysu advance to £4.8m

By Peggy Hollinger

STRONG growth in the Netherlands led to a 20 per cent rise in interim profits at Plysu, the plastic packaging and housewares manufacturer. Pre-tax profits for the 28 weeks to October 11 were £4.8m, against £4m.

About half of the rise in sales, from £34.4m to £35.7m, was due to an improved performance from the group's recently rebuilt Dutch factory, which was operating at near-capacity, said Mr James Summerlin, chairman. Plysu planned to open a second factory in the near future, probably in Belgium, he added.

Profits were also boosted by significantly lower interest charges, down by 45 per cent to £332,000. The group had paid off all its debt since the interim stage, Mr Summerlin said, although it would incur a slight deficit by the year-end due to tax charges.

The raw materials supply problems which have beset Plysu since the Gulf War had been resolved, and prices were returning to more normal levels, with gains passed on to UK customers.

Earnings per share advanced from 6p to 7.2p. The dividend was raised to 1.65p (1.35p).

Placing for Harrington Kilbride

Harrington Kilbride, the magazine group which publishes the titles, Baby and Royal Dempster's as well as several business journals, is to make its debut on the main market via a £3.5m placing, valuing the company at £11.3m.

About 31 per cent of the group's share capital will be placed by brokers Beeson Gregory at 120p. Approximately £2.1m of the £3.5m raised will go to the company.

The group, which was founded in 1978 by Mr Kevin Harrington, now managing director, also predicted that pre-tax profits for the year to December 31 would not be less than £1.25m, making a prospective p/e of 12.2 times. Last year Harrington made £1m pre-tax

Dealings are expected to begin on December 16.

NEWS DIGEST

Blick shares up as profit rises 11%

SHARES IN Blick, the workplace clocking-in equipment and radio pager supplier, rose from 305p to 339p and then settled back to 327p after the company reported pre-tax profits up 11 per cent to £6.32m in the year to September 30.

The rise from £5.67m was struck on turnover 8 per cent ahead at £23.8m (£22m). Telefusion, acquired in May for an eventual £7.76m, had made "a substantial contribution to group profits", said Mr Alan Elliot, chairman.

Earnings improved to 21.63p (19.63p) and an increased final dividend of 5.4p (4.5p) is proposed for a total of 8p (7p).

Wescol losses exceed £1m

Wescol Group, the USM-quoted structural engineer, incurred a pre-tax loss of £1.15m, £532,000 of which came from discontinued activities, in the year to July 31 compared with a previous profit of £60,000.

Included in the figure was an exceptional charge of £538,000, comprising £256,000 attributable to discontinued activities and £212,000 arising from losses and closure costs.

Turnover declined to £24.74m (26.7m). Losses per share increased to 7.6p (0.3p).

Baggeridge Brick halved to £2.5m

Profits of Baggeridge Brick, the West Midlands-based brickmaker and supplier of building materials, were again hit by the recession in the construction industry and fell from £5.21m to £2.54m pre-tax in the year to September 30.

Mr Peter Ward, chairman, said that the national demand for bricks in 1991 would probably be about 35 per cent lower than that of pre-recession 1988 and about 10 per cent lower than last year.

Turnover declined to £28.4m (£33m) and earnings fell to 4.84p (8.5p). The final dividend is held at 2.375p for a same-again total of 3.125p.

Core growth boosts Scott Pickford

Strong demand in its core activities helped Scott Pickford, the oil industry service company, increase pre-tax profits from £80,000 to £185,000 in the six months to September 30.

The results were further boosted by an increase in interest received to £22,000 (£17,000) but there was a loss from the share of an associate of £928 against profits of £17,000.

Earnings per share were 1.78p (0.74p).

Higher rents aid Stewart & Wight

Increased rental income from a favourable rent review and acquisitions helped Stewart & Wight's pre-tax profits rise from £150,000 to £173,000 in the six months to September 30.

Earnings per share increased from 123.97p to 146.72p.

Albion down by a quarter to £620,000

Albion, the textiles, clothing and footwear group, saw pre-tax profits tumble 24 per cent from £824,000 to £620,000 in the year to September 30 on turnover which rose from £12.16m to £13.57m.

Earnings declined from 14p to 9.6p, after tax of £217,000 (£231,000) and the proposed final dividend has been cut to 1.3p (1.8p) for a total of 2.5p (3.2p).

Total Systems recovery continues

Total Systems, USM-quoted computer systems group, continued the improvement seen in the second half of the previous year and reported pre-tax profits of £351,000 for the half year to September 30 against £20,000.

Turnover was £1.29m (£967,000) and earnings 2.38p (0.13p). The company has returned to the dividend lists with an interim payment of 0.75p.

Loss of £96,000 from Automagic

After exceptional costs of £216,000, against a credit of £202,000, Automagic Holdings, repairers of shoes and leather goods and dry cleaners, incurred a loss of £96,000 in the 61 weeks to June 29. There was a profit of £684,000 for the 52 weeks to April 28.

Turnover was £14.6m(£12m). Losses per share were 3.8p (earnings 7.4p). The directors are proposing passing the final dividend for a total payment of 0.5p (6.5p).

Wardell Roberts declines 17%

Wardell Roberts, the Dublin-based food, drink and tobacco company which obtained a listing in October, suffered a 17 per cent fall to I£1.33m (£1.24m) in pre-tax profits for the six months to September 30. The figure last time was I£1.61m.

Turnover was slightly down at I£23.9m (I£24.7m) but operating profits dropped to I£1.5m (I£1.86m). Earnings per share were lower at 4.4p (5.6p) but the interim dividend is lifted to 1.27p (1.21p).

Receivers called in at Stormgard

Stormgard, which makes and distributes office equipment, yesterday appointed administrative receivers following the failure of several rescue plans.

In August the group reported losses for the year to March 31 of £11m after extraordinary items of £7.8m.

The administrators, Arthur Andersen & Co, the accountancy firm, said they intended to trade the businesses as going concerns and had already received serious indications of interest "from several parties".

Birkdale back in the black with £64,000

After two years of restructuring Birkdale Group, the marketing, advertising and public relations consultancy group, has moved back into the black with a pre-tax profit of £64,000 for the six months to September 30. This compares with an adjusted loss of £718,000.

Turnover for the period was virtually unchanged at £10.57m (£10.44m adjusted) and interest charges were down from £277,000 to £102,000. Earnings per share emerged at 0.5p (losses 12.5p).

Associated British Engineering in profit

Associated British Engineering has returned to the black, with interim pre-tax profits of £42,000 against a loss of £74,000. The turnround was achieved in spite of a drop in turnover from £17.8m to £16.2m for the six months to September 30.

The fully-diluted loss per share was clawed back from 0.04p to break even. The group said a decision would be taken on the dividend when the full-year results were known.

Booth Industries tumbles 14%

Booth Industries, which is engaged in structural steelwork and engineering, yesterday announced a 14 per cent drop in interim pre-tax profits to £323,807, on sales 8 per cent higher at £16.1m. Earnings per share fell to 5.42p (6.12p) and the dividend was maintained at 0.7p.

LEGAL NOTICES

MAIDSTONE GROVE LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at:
Orchard House,
10 Albion Place,
Maidstone,
Kent ME14 5DZ.
on 19th December 1991 at 11.00 a.m. for the purpose of having laid before it a copy of the report prepared by the Administrative Receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.
Creditors are only entitled to vote if:
(a) they have delivered to me at the address shown above, no later than noon on 18th December 1991, written details of the debts they claim to be due to them from the company and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
(b) there has been lodged with me any proxy which the creditor intends to be used on his or her behalf.
Please note that the original proxy signed by or on behalf of the creditors must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.
Dated: 29th November 1991
N.J. VOOGHT
Joint Administrative Receiver

هكذا من الأصل

TECHNOLOGY

Batteries, chips and power on display

In two areas, power supply and display screens, technology is shaping tomorrow's portable computers.

● Batteries and chips: One of the problems facing the portable computer user who does want to use a machine on the move is the relatively short life of the typical nickel cadmium batteries which supply the power. These often provide as little as one hour of computer use depending on the function.

Nickel Metal Hydride batteries offer about a 30 per cent longer supply without additional weight but the more significant breakthrough is likely to be the development of low-power consumption processors from Intel and Advanced Micro Devices.

These chips have power management features and can increase working life to up to five hours on a machine with a monochrome screen.

The next generation of AMD chips will be designed to work at 3.3 volts instead of the five volts required by today's semiconductors and will provide a useful battery life of up to nine hours per charge.

● *Screens:* While monochrome liquid crystal display screens have been improved to provide higher contrast and definition using 32 shades of grey, some of the latest notebook computers come with *colour displays.*

These are based on costly active-matrix thin-film transistor technology in which each dot on the screen is made up of three or four individual transistors.

But makers of active-matrix thin-film transistor screens have found it difficult to produce perfect screens (with all 1.2m transistors working) – 95 per cent of the screens are rejected – and costs are therefore very high.

Among possible alternatives Canon of Japan is developing ferro-electric liquid crystal displays.

These have 5.24m picture elements and therefore promise to give high-quality colour at a lower price.

PT

Paul Taylor describes why the notebook computer market is growing by leaps and bounds

Dance of the clam-shells

Ten years ago Adam Osborne, the flamboyant British author and *entrepreneur*, unveiled the world's first "portable" computer – an 11kg mains-powered monster shaped like a sewing machine which rapidly assumed the epitaph "luggable".

The rest of the 1980s saw rapid technological advances *providing* the means to pack ferocious amounts of processing power and massive slabs *of* memory into shrinking packages which sold for ever-decreasing prices. "Laptops" replaced "transportables" to be eclipsed themselves by "notebooks" and even "palmtops".

Today it is possible to buy a full-function computer with all *the power of a slightly ageing* mainframe in a clam-shell box no bigger than a thick pad of paper weighing less than 3kg.

Most notebooks – as these miniature computing powerhouses have become known – still have monochrome displays and "Qwerty" keyboards, but *some* of the latest come equipped with high-definition colour screens and "mice", "pens" or other pointing devices.

While there is still much confusion over exactly what qualifies as a notebook PC – and therefore also about precise sales figures – there is little disagreement that soaring sales of these sophisticated portables *have given the* flagging PC market a much-needed shot in the arm.

Despite a slight slow-down in growth reflecting the recession, Dataquest, the market research company, is predicting an 88 per cent increase in UK notebook sales this year. Sales of heavier laptop machines – which weigh 7lb and over – are expected to fall by about 26 per cent. "There has been a definite and very sudden shift from laptops to notebooks," says Dataquest's Charles Smulders.

In Europe the market for laptops and notebooks grew from 458,500 units in 1989 to 725,100 units last year according to Dataquest. Looked at another way almost one out of every 10 PCs sold in Europe last year was portable and one out of every five of these was a notebook. A similar picture emerges in the vast US market.

Most forecasters expect worldwide notebook sales to continue to grow strongly in the next few years and to account for an increasing share of overall PC sales. Dataquest predicts that notebook sales will top 6.5m units by 1994, a compound growth rate of 75 per cent, and that portable sales will make up nearly 40 per cent of the PC market compared with about 17 per cent today.

This surge in real and projected sales has produced an *explosion of activity among* manufacturers, assemblers and retailers. Mainstays of the PC industry like Apple and IBM have recently endorsed the market by producing new notebooks – in both cases after *earlier false starts.* Surprise new entrants include Nippon Steel which introduced its Librex range of notebook machines earlier this year.

A few companies like Toshiba, whose hugely successful and *extensive TX000 models* have provided the benchmark by which other machines are judged, have managed to carve up significant shares of the *market. In* Europe, *for* example, Toshiba had around a 40 per cent market share in terms of shipments in 1990.

But even market leaders like *Toshiba* and Compaq are feeling the pressure of fierce competition and the inevitable discounting and hefty price cuts – averaging 25 per cent or more. A standard notebook based upon Intel's popular *80386SX chip can now* be bought for less than £1,500 and the gap in price/performance between portable and equivalent desktop computers is continuing to narrow.

Undoubtbly the winners are *the portable computer buyers* who are seeing prices tumble while power and flexibility surge. Indeed lower prices, higher technical specifications and greater convenience are some of the factors that help explain the notebook boom itself. "More than enough technological punch can now be packed into conveniently small packages to tempt all but the *most diehard desktop power* users," said Dataquest in its June European Monitor report.

As a result the latest generation of portables is able to run the same power and memory-hungry programs – like Microsoft's popular Windows – that run on the office desktop and can be fully integrated into a *company's computer system.*

The notebook computer can exchange data with the office system via floppy disc, hard wire connection or over a telephone *line* using a modem. A salesman out on the road can take with him the latest office data in his portable's memory and then, using a modem, update his customer list or download the latest prices.

Some portables have even been designed to lock into a desktop "docking station" allowing them to be used with superior screens and keyboards if required and to hook into an office local area network sharing software and hardware devices. Docking machines are made by Com*paq, Unisys, NCR, Olivetti and* others.

Even machines without this facility have proved an attractive option for some offices where desktop space is at a premium. For example, while the surge in PC sales in the early 1980s largely bypassed Japan where desktop space is in desperately short supply, Japanese companies have begun to provide their employees with notebook PCs.

But the principal attraction of a portable computer remains, for most users, its portability, even though research suggests relatively few portable computer buyers actually use their machines while travelling. A recent survey of the market commis*sioned by AST Europe,* the European subsidiary of the US computer group, showed that the majority of portable systems were used in the office (37.4 per cent), at home (33.8 per cent) or in other offices (19.3 per cent). Only 9 per cent of owners used their portables while on the move.

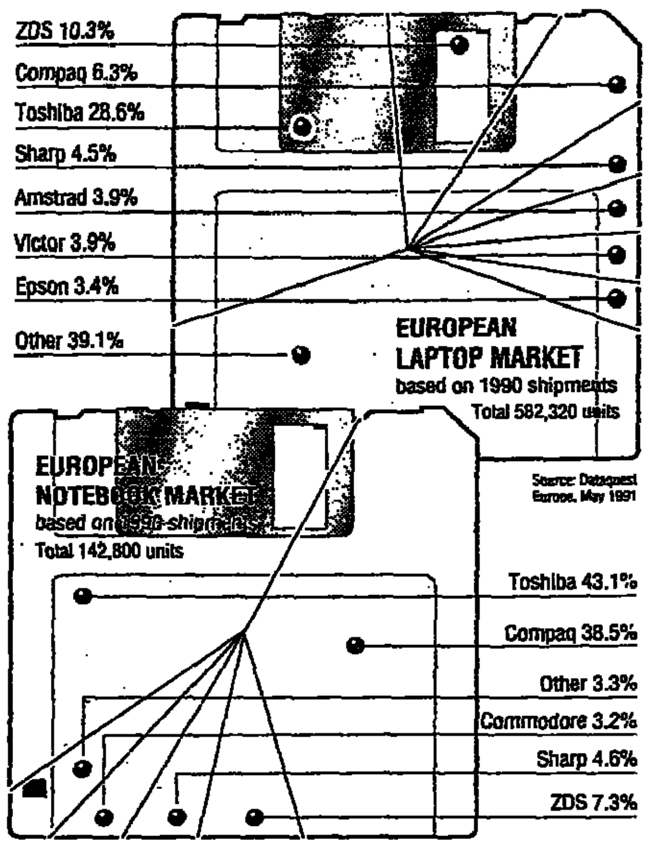
The same survey also shed *new light on who is buying* portables, and what they are using them for. More than one in 10 are managing directors and a majority are senior managers or directors. Assuming they have a desktop as well, they spend an average of 2.35 hours a day on the portable. As *expected, word processing,* spreadsheets and databases are the main applications and the most popular software package was Windows.

The image of the portable PC user as either the super-efficient company executive dashing from airport to airport or the insurance sales rep selling the latest customised financial product in a prospective customer's lounge is therefore only partly accurate.

In the *past most portables* were bought by individuals or in small batches, but this seems to be changing. Manufacturers, retailers and management consultants say an increasing number are being ordered by big companies, sometimes by the thousand. Graham Hopper, AST's UK director of operations, confirms some big companies, particularly *those with large mobile* salesforces like insurance companies, have begun to place large bulk orders.

However, insurance salesmen are not the only workers being kitted out with notebook computers. AST has provided its own sales team in the US with notebooks which they use to service their customers. Other notable large orders *have included the UK Ministry* of Defence which bought Zenith notebooks for use by army officers in the Gulf war.

The trend towards portable computers is in step with social currents in favour of compact office equipment. A more mobile workforce requires more mobile equipment. "They are attractive to anybody who needs to leave the office and work at home or on site," say David Kirk and David Freeman of Arthur Andersen's technology and corporate services division. Potentially this is a huge market.



Laptops fail at an office job

By Della Bradshaw

The laptop has taken the personal computer into homes, on to airliners and trains, and even into nightclubs. But take them back into the office and the prob*lems* begin.

For the frustrated laptop user the technology *is now* under development to enable him or her to sit down in the office, take the laptop out of a briefcase and begin sending data to other machines within the building. The laptop could share resources – such as discs or printers – with other laptops and get access to files held on the central company database.

Today to get access to the office computer network PC users have to link the portable to a desktop machine to trans*fer data, or transfer the discs* from one machine to the other. More modern laptops use "docking stations", so that by plugging the laptop into a sta*tionary desk unit*, the expense of buying two machines is eliminated. But the portability of the laptop – moving from one desk to another – is still hampered.

The problem is that com*puter networks need wires.* But the radio networking technology needed to liberate the laptop is already available from US company Motorola. And in *Europe, the standards bodies* are drawing up specifications and allocating radio spectrum to allow these wireless local area networks to operate.

"This will become the principal way of networking PCs," says Andrew Bud, manager of the personal network systems division of Sixtel, part of the Olivetti group. As the European specification enables calls *from cordless telephones as* well as PC data to be sent over the ether, Bud believes this will point the way towards the latest multimedia applications. "Data, voice and video transmissions will merge," he says.

Companies such as Siemens in Germany and Apple Computer in the US are showing an interest in the technology.

The moves in Europe towards digital European cordless telecommunications (Dect) began in 1988, when Etsi, the European Telecommunications Standards Institute, began looking at a specification. This was followed in 1989 when the European telephone club, Cept, allocated the radio spectrum in the 1.88 to 1.90 Gigahertz wavebands.

On June 3 this year an EC directive ratified the whole process. As a result, network*ing products adhering to the* standard could be on the shelves by the middle of 1992.

The frequencies allocated under the European standard mean that 100 per cent of PCs and 70 per cent of cordless phones could be catered for in the office environment using a *single wireless Lan.*

Each PC would communicate by radio at a rate of 10 Mbit/s, and each phone at 5 Mbit/s to the local hub, which would then be wired, using traditional networking technology, *to the computer server. The* hub throws out a radio shadow up to 80 metres in radius. As the signals can travel through walls, companies with 20 or 30 PCs need only install one of the units.

Initially the systems will involve plug-in units to be fitted to the back of the laptop or desktop PC. But eventually these could be shrunk and *built in to the machines*, in a similar way to modems today.

In the US, the regulatory bodies have allocated much higher frequencies for the tech*nology – 18 GHz. Although* only launched in the US in February, Motorola is reporting moderate sales of its Altair system in Germany, Spain and the US, where the appropriate radio spectrum has been allocated.

Mindful that future video communications will require much greater bandwidth, Etsi recently set up a committee to develop wireless Lans with 10 times the performance of the ones under development today.

Cept is now looking at two possible frequencies that could be allocated across Europe for Hyperlan, as it is called. Now *under consideration* are 5.2 GHz and the much higher 17 GHz. Manufacturers such as Olivetti are opposed to the higher frequencies, says Bud, because they are extremely sensitive to outside noise and the signals do not travel as far. This means that more hubs are required, making the systems potentially more expensive.

BUSINESS LAW

US foreign investment regulations

By Christopher Wall

After nearly two and a half years' gestation, the US Treasury Department has issued regulations formally implementing the Exon-Florio Amendment, *which provides* for national reviews of foreign acquisitions of US companies. The law gives the US president authority to block acquisitions that threaten to impair national security.

When the Exon-Florio Amendment was passed as *part of the* Omnibus Trade and Competitiveness Act of 1988, there were fears it could be used to close the door to foreign investment, not only in defence or strategic industries, but also in other sectors that *might* be *deemed important* to "economic security" defined in a broader sense.

In fact, the law has not been used in this way. The Committee on Foreign Investment in the US (CFIUS), the interagency committee *that* administers the law, has balanced the need to protect US national security with the equally important policy of maintaining open international investment markets.

Since July *1989, CFIUS has* operated under proposed Treasury Department regulations pertaining to Mergers, Acquisitions, and Takeovers by Foreign Persons. These proposed regulations, in effect, codified *CFIUS's* practice *in reviewing* and investigating transactions. They defined the transactions subject to notification, described the content of such notifications, and *established* procedures for administering the *statute.*

The proposed regulations interpreted the Exon-Florio Amendment broadly. For example, they interpreted the statutory language to include any proposed or completed transaction which *did* or *could* result in the foreign control of a *US company*, regardless of the actual control arrangements planned or in place at the time of the acquisition.

"Control" was given a functional rather than a mechanical definition, focusing on the substance rather than the form of the transaction. Thus, in addition to stock *transactions*, the regulations applied to asset purchases *and joint* ventures that could result in foreign control of a US business entity.

The term "foreign person" was also broadly defined. US subsidiaries of foreign companies could be considered foreign persons if they acquired a US company. However, US subsidiaries of foreign companies could also be considered "US persons" if the subsidiary was *sold to another foreign company.*

The proposed regulations did not attempt to define national security. The term is not defined in the statute, and as noted in the legislative history, *it was intended to be interpreted* broadly. In practice, "national security" is a concept that has been defined on a case-by-case basis.

The final regulations, published by the Treasury Department on 21 November *1991*, closely resemble the proposed *rules*, but resolve areas where there has been uncertainty.

They did not respond to changes in many comments, nor did they adopt a limit on the size of transactions requiring notification. Essentially they continued the approach of *the proposed regulations.*

The final regulations, published on 21 November, closely resemble *the proposed rules, but resolve areas where* there has been uncertainty

Notification of transactions remains voluntary. The regulations do not intend notice to be submitted "in cases where the entire output of a company to be acquired consists of products and/or services that clearly have no particular relationship to national security", but notice would clearly be appropriate if the acquired *company provides "products or* key technologies essential to US defence requirements".

Companies must use their own judgment. They may close deals without violating the law. However, if they fail to provide notice, the *transaction* remains subject to possible *divestment* at a later time if the president determines that it threatens to impair national security.

The final regulations require essentially the same information in providing notice to *CFIUS. Detailed information* must be submitted, for exam*ple describing* the transaction and listing all classified contracts and defence contracts for five years and three years prior to the transaction.

In some areas, however, the final regulations did respond to comments. Most notably, they clarified the application of the statute to bank *lending transactions* where a foreign bank may acquire a security interest in the assets or stock of a US company.

Under the final regulations, it is clear that notification is *not required to execute on the* collateral.

Whether the CFIUS review is appropriate will depend on whether the bank actively participates in controlling the affairs of the company, or acts *as a passive lender.* The usual covenants concerning debt ratios, approvals for certain charter amendments and the like are not considered as indicative of control for these purposes.

The definition of control has been refined to make clear that the foreign investor must actively participate in directing the affairs of the US entity.

The final regulations clearly apply the Exon-Florio Amendment to proxy contests. Notification is required by both the group mounting the battle as well as the company itself.

The regulations also address hostile takeovers. These are rare – to date there has been only one transaction involving competing *bids – but the regulations* make clear that the national security review process may not be used to give a target company time to thwart an unsolicited bid.

The change in the final regu*lations* that provoked the greatest controversy, and delayed their publication for a substantial period of time, dealt with whether there should be a "statute of limitations" for presidential action against companies that do not submit notifications.

Under the proposed regulations, the president could seek divestiture at any time if a transaction was not subject to CFIUS review or investigation. However, the proposed regulations limited the president's open-ended authority to take action against non-notified transactions by requiring that the purpose of the divestiture must be based on circumstances existing at the time the transaction was concluded.

As a practical matter, this limitation may be unworkable because of the *difficulty* in recreating the circumstances surrounding a transaction years after it has taken place.

Some within the administration argued that this authority to challenge transactions nevertheless created significant uncertainty and would deter foreign *investment.* The final regulations adopt a compromise position. The president still retains unlimited authority to challenge transactions, based on contemporaneous circumstances. However, an *agency may not initiate a* review more than three years from the date of the transaction.

Despite the clarifications in the final regulations, congressional critics of CFIUS are not *likely to be satisfied. To date,* there have been approximately 650 notifications of transactions with only 13 investigations, and only one transaction has been blocked – the purchase of an aircraft parts man*ufacturer by an arm of the* aerospace ministry of the People's Republic of China.

The energy and commerce committee has approved a revision to the Exon-Florio Amendment, the Technology Preser*vation Act of 1991, which* would provide for mandatory investigations of transactions in essential sectors to be designated by the assistant to the president for science and technology, and would require *mandatory notifications of* acquisitions of as little as 25 per cent in companies in certain defence-related sectors.

The foreign investment issue is *also likely* to heat up very rapidly as congress and the administration focus on Taiwan Aerospace's proposed acquisition of a 40 per cent interest in the commercial aircraft operations of McDonnell *Douglas. This transaction* will provide CFIUS with perhaps its greatest challenge since the adoption of the Exon-Florio Amendment and give the final regulations their first real test under fire.

The author is a partner in the Washington DC office of the US law firm of Winthrop, Stimson, Putnam & Roberts.

■In Business Law, November 28, by Mark Friend and Derek Ridyard it was mistakenly stated that "pricing at or above average variable cost should be presumed to be unlawful". This should have read: "pricing at or above average variable cost should be presumed to be lawful and pricing below average variable cost should be presumed to be unlawful."

COMMODITIES AND AGRICULTURE

Silver leads retreat of precious metals prices

By Kenneth Gooding, Mining Correspondent

PRECIOUS METAL prices tumbled yesterday, reflecting fears that the recession in most industrialised countries still has a long way to run. Silver's price in London fell by 9 cents or nearly 2.5 per cent to $3.93 a troy ounce. The price of rhodium, one of the platinum group metals, plunged in the European free market to its lowest level since November 1989.

Some dealers said that silver's fall was triggered by a sharp drop in US share prices because silver was widely seen as an industrial metal and thus vulnerable to economic downturns.

Others suggested that some Arab syndicates had become tired of waiting for the price to rise and had sold their silver yesterday. The fall in price sparked some selling by investment funds.

Mr Edwin Arnold, analyst at Merrill Lynch, said silver's prospects were "not good, not bad." The most important factor was that sales to the important Indian market were well down this year from the 1990 record.

According to the Commodities Research Unit, a consultancy organisation, silver imports by India in the January-September period this year amounted to only 540, tonnes compared with 775 tonnes in the corresponding period of 1990. Although December and January are the peak months for Indian marriages, at which silver gifts are traditionally given, it was very unlikely that demand would pick up sufficiently to come close to last year's 1,300 tonnes, said Mr Arnold.

Rhodium's price rise in the past two years was caused mainly by teething problems at Rustenburg's new refinery in Bophuthatswana, South Africa, at the end of 1989. The price, which ranged between $1,250 and $1,400 an ounce in the free market for most of 1989, briefly touched $7,000 in July 1990.

Now rhodium, used mainly in automotive anti-pollution catalysts, is in free supply and demand from the car makers is "abysmal," according to one dealer. However, South African producers continued to meet contracts with their customers who were feeding the metal back to the market, dealers suggested. Soviet rhodium was also reported to be in plentiful supply through intermediaries and there was talk among traders of de-stocking by Japanese merchants.

Rhodium was quoted yesterday at $1,500 an ounce on the free market, down $600 or 3 per cent on the week.

Platinum, another metal used by the car industry in its catalysts, was also vulnerable in yesterday's sell-off. Its price closed in London down $2.25 an ounce at $368.

Gold also retreated yesterday, having failed to break through to $375 an ounce earlier this week. It closed in London at $366 an ounce, down $2.35 on the day.

Dealers said gold dipped to $365.70 at one point yesterday but recovered slightly after the US dollar fell sharply in Europe on reports that the Russian president, Mr Boris Yeltsin, had had a "satisfactory" meeting with the Soviet military and worries about the possibility of a military coup eased.

Merrill Lynch's Mr Arnold said that dealers and fund managers had attempted to lift the price of gold beyond $372 an ounce this week but had retreated when some selling by producers appeared. He dismissed recent bullish forecasts about the gold price by asking: "Where's the buying going to come from?" Merrill is forecasting gold will average $375 an ounce next year, up from about $365 in 1991, compared with predictions by other London-based analysts this week that the precious metal will average $400 next year.

Bauxite group to lose its biggest member

Australia's defection will make fundamental changes necessary, writes Canute James

IN A move that will force some fundamental changes in the functions and influence of the International Bauxite Association, the Australian government has announced that it will be leaving the producers' group, which it helped to create 17 years ago.

The departure of Australia, the world's leading producer of bauxite (the ore from which aluminium is made) and, therefore, the most powerful and influential member of the association, will force the remaining nine members to reshape the group and perhaps to court other bauxite producers who have so far not shown much enthusiasm for membership.

The Australian decision, told to other members at the IBA's annual ministerial conference at its headquarters in Kingston last month, appears to result from a combination of irritation over what it sees as the inadequate benefits of membership and a changed perception of the role of producers' organisations in a new world economic order.

"Australia's membership of the IBA is no longer warranted, particularly in view of the escalating cost," said Mr Alan Griffiths, Australia's minister for resources. Industry executives in Australia and association members say that, although it is a founding member, Australia has never been very happy with the producers' group.

The crucial factor for the Australian government appears to have been the fact that, with a contribution scale based on the volume of ore production, Australia found itself responsible for providing about 40 per cent of the IBA's budget.

> One task facing the body is the recruitment of new members, if it wants to retain what remains of its credibility as the producers' representative

The government has apparently come to the conclusion that the benefits from membership are not worth this sort of investment.

The IBA's remaining members are Guinea and Jamaica – the world's second and third largest producers of the ore – as well as Suriname, Guyana, Sierra Leone, Ghana, Indonesia, India and Yugoslavia. When it was created the association steered clear of any attempt to operate as a cartel, as was feared by the metals companies. Rather, the association has acted as a data bank for its members, allowing them to exchange information and ideas on the state of the industry.

The IBA's members, with Australia, have traditionally accounted for 85 per cent of the western world's bauxite production, while contributing 54 per cent of alumina (aluminium oxide) production and 18 per cent of primary aluminium output.

It will not be the first time the IBA has lost a member – the Dominican Republic and Haiti were forced to leave the group in the 1980s because their industries died after commercially exploited deposits of ore were exhausted – but the implications this time are far more serious.

The Australians say that, rather than staying with a producers-only group, they will now look to other organisations falling under the auspices of the United Nations Conference on Trade and development (Unctad) which represents both producers and consumers.

"Australia has adopted a policy on membership of the international commodity organisations which placed emphasis on the relative costs and benefits of membership," said Mr Griffith, "on the views of the industry whether the organisation involved both producers and consumers, and on international relations considerations".

Australia's enthusiasm for the IBA when it was formed was influenced considerably by the tendency of the Labour government to find common ground with developing countries seeking a better deal from their natural resources. But the Australians have been concerned over developments such as the efforts by the IBA to set prices. Every year but one since the IBA was formed, the Australians have entered reservations about the minimum prices recommended by the IBA ministerial council, despite the fact that these are recommended and not binding on members.

In an attempt to repair the damage caused by the loss of its largest member the IBA has plans to reshape its organisation, a task which will fall to a group of members led by Jamaica. The first step in this will be cutting the association's operations to fit its new, reduced budget.

But there will also be changes to meet the altered perceptions on international trade, and which have emerged since the IBA was formed. Ironically, the IBA has been moving towards some structured relationship with consumers, under the aegis of Unctad, but perhaps not as quickly as the Australians wanted. Now the association, jolted by Australia's decision, may move faster in this direction.

The other immediate task facing the body is the recruitment of new members if it wants to retain what remains of its credibility as the producers' representative. "Our objective is to attract as large a number of the bauxite producing countries as possible to join the Association," Mr Ibrahima Bah, secretary general of the IBA, said a year ago. "Many which are not now members have recognised the worth of the Association and the validity of its objectives."

Brazil, Venezuela, China, Greece and Hungary are among the countries that the IBA would like to sign up, but despite repeated overtures Brazil is only interested acquiring the status of an observer at IBA meetings, rather than taking on the responsibilities of full membership.

Bleak outlook Australian miners

By Kevin Brown in Sydney

THE AUSTRALIAN mining industry faces a bleak outlook for exploration and investment in the current financial year, the mining industry council said in its annual review yesterday.

Mr Hugh Morgan, managing director of Western Mining and chairman of the council's economics committee, said investment would fall by 15 per cent and exploration by 27 per cent in the 12 months to next June. The decline would follow a 23 per cent fall in expenditure on fixed assets last year. Exploration spending was static.

The council said activity had been hit most sharply in the smelting and refining sector of the industry, in which investment was expected to fall by 47 per cent in the current year. Company profits were down by 43 per cent in 1990-91 to A$2.5bn.

"The fall in profitability was a result of cost increases combined with almost no growth in revenue," the council said.

Officials urged the government to step up efforts to cut transport and labour costs and to increase protection for mining companies through legislation guaranteeing access to land and resources.

Such legislation is strongly opposed by Australia's powerful environmental movement, which has threatened to campaign against governments that introduce it at state or federal level.

Forestry Commission privatisation urged

By David Blackwell

TWO REPORTS on the UK's state-owned Forestry Commission have come out in favour of privatisation.

The Forestry Commission, which controls 5 per cent of the UK land area, has remained fundamentally unchanged since it was set up in 1919, according to What's Good for Woods, published by the Centre for Policy Studies. The report urges its sale by tender and the setting up of a separate National Forest Authority to look after environmental issues and rights of access.

"Traditional woods, where access and conservation take precedence over timber production, should be given to appropriate bodies," says the report.

Mr Robert Rickman, the author, said yesterday the initiative now needed to come from the politicians. However hard it tried to reform itself, the commission was tied by government restrictions.

Wood for the Trees, published by the Adam Smith Institute, suggests that "full-scale privatisation offers the only avenue of escape from the costly heavy hand of government control".

Privatisation of the commission's commercial operations as a single company would allow business to continue with minimal disruption. Provisions covering such subjects as guaranteed public access could be written into the new company's articles of association, says the report.

What's Good For Wood, CPS policy study No. 129: Centre For Policy Studies, 52 Rochester Row, London, SW1P 1JU. £6.95.

Saudi Arabia reaps record wheat crop

SAUDI ARABIA'S wheat crop hit a record 4m tonnes in 1991, up 400,000 from last year despite the Gulf crisis and a government campaign to make farmers grow more barley, Riyadh-based economists said, reports Reuter from Manama.

Grain silos are overflowing and some large farms have been asked to store their wheat instead of bringing it to official storage areas, the economists said.

The surplus, including unsold stocks from last year, is estimated at about 3m tonnes.

Exports for 1991 are put at about 2m tonnes – lower than most analysts expected because of port and shipping disruption during the Gulf war and its immediate aftermath.

"Unless they try to export more grain next year they are going to be in trouble – they can't store more," one agriculture expert said.

Economists say the glut underlines Riyadh's difficulty in persuading farmers to grow less heavily subsidised wheat.

Farmers receive between $400 and $500 a tonne for wheat, compared with world prices of about $135 a tonne, and the crop costs Riyadh at least $1bn a year.

Brazilian chickens climb export league

Victoria Griffith reports on an agricultural marketing growth area

While much of the world was preparing for war in the Gulf last year, Brazil had a different Middle East problem on its hands – how to get its frozen chickens safely into Saudi Arabia.

With chicken output expected to reach nearly 2.5m tonnes this year, Brazil has become the world's second-largest producer after the US. The country is also battling with The Netherlands and France for ranking as the world's second-largest exporter.

The first Brazilian chickens were shipped to the international market in 1975 and total exports this year will exceed 300,000 tonnes, representing over US$320m in sales. Saudi Arabia is the country's biggest customer, followed by Japan, and Europe.

"Chicken production is the most successful area of Brazilian agriculture today," says Mr Heitor Mueller, director of Frangosul, one of the country's biggest chicken producers. Several factors make Brazil an ideal place to raise chickens. "We have warm weather all year," explains Mr Americo Utumi, head of the National Association of Chicken Producers. "That means we don't have the extra cost of having to heat the chicken houses."

He adds that Brazil has traditionally had a cheap supply of maize, the main chicken feed ingredient. Although the country faced a shortage of the grain this year many of the bigger chicken producers were not affected, as they grow their own feed.

The production of chickens for export in Brazil is concentrated in the hands of a few major operators, the biggest of which are Sadia, Perdigao and Frangosul. These groups control chicken production from breeding to packaging and export and have been responsible for introducing state-of-the-art technology into the production process.

> 'Chicken production is the most successful area of Brazilian agriculture today'

According to Luiz Inacio Medeiros, president of Perdigao, technological advances have reduced the average fattening period of Brazilian chickens from 53 to 41 days. "The technology used in chicken production in Brazil is at least equal to that in the US and Europe," says Mr Mueller of Frangosul. "And much of it we developed ourselves. Because chickens are capital-intensive, it is natural that they should be bred by big companies."

Despite the large companies' dominance of the export market, Mr Utumi says there is still a place for medium and small-scale chicken farmers in the domestic market. "Because of the thousands of small supermarkets and shops which need to be supplied with chickens," he says, "there will always be a niche for the small farmers." Just how much growth potential there is in Brazilian chicken farming is uncertain.

The large chicken companies say they have at least 20 per cent excess capacity, which could be filled at little cost. "We have to be careful not to glut the market, though," Mr Utumi cautions. "That would bring down the price of chickens."

Much of the growth of chicken production in Brazil has been a result of an upsurge in chicken consumption. According to Mr Medeiros of Frangosul, the average Brazilian now eats 13.4 kg of chicken a year, compared with 2.8 kg in 1970.

In the export market, Brazil has increased its chicken sales by stealing market share from other major producers. "It's our finding that chicken consumption is very inelastic," says Mr Mueller. "The demand is potentially there, but poor countries cannot afford to buy much chicken. The growth of the world chicken market will depend almost solely on the rise in disposable income in the Third World."

Brazilian chicken farmers are optimistic, nevertheless, that in the long-run their chicken sales will continue to grow. "We are making more money on the same amount of chickens because we are selling more expensive items like pre-packaged chicken parts," says Mr Mueller. "Besides that, the trend to healthier food – which means white meat, not red - will probably boost sales."

WORLD COMMODITIES PRICES

MARKET REPORT

Tin prices closed higher on the LME yesterday on unconfirmed rumours that Brazil's Ebesa mining consortium had lost the mining rights to Bom Futuro that were granted two weeks ago. But trading remained thin despite recent physical interest and the market may have difficulty moving above $5,600 for three-month metal. Another attempt by the nickel market to break through upside resistance failed; three-month metal closed up $2 at $7,177.50 a tonne after hitting resistance at $7,200. Dealers said nickel will probably need to consolidate after rising by some $150 a tonne from 22-month lows last week. Cash metal fell $15, leaving the discount against three-month metal at $47.50 a tonne. Zinc prices improved; dealers said recent selling has run its course. London sterling robusta coffee prices fell sharply. "It was due for a run down and no one stepped in to take on the market on the buyers' side. It was just like a big snowball rolling downhill," said one dealer. In Chicago wheat was ahead at midday in quiet trading as the market waited for the USDA grain stocks report. Market strength was attributed to the USDA's targeting of an additional 1m tonnes of EEP wheat to the former Soviet Union.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$15.10-0.20q	+.025
Brent Blend (dated)	$18.25-8.30	+.125
Brent Blend (Jan)	$18.30-8.35	+.075
W.T.I. (1 pm est)	$19.55-9.60q	+0.10
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$199-201	-3
Gas Oil	$174-176	-1½
Heavy Fuel Oil	$71-72	-1
Naphtha	$184-186	+½
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$366.05	-2.35
Silver (per troy oz)♣	393.0c	-9.50
Platinum (per troy oz)	$368.00	-2.25
Palladium (per troy oz)	$84.8	-0.70
Copper (US Producer)	103.0c	
Lead (US Producer)	37.0c	
Tin (Kuala Lumpur market)	14.61r	
Tin (New York)	255.5c	+1.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	110.77p	+4.44*
Sheep (dead weight)†	146.46p	-8.31*
Pigs (live weight)†	89.73p	+5.30*
London daily sugar (raw)	$281.4z	
London daily sugar (white)	$274.2z	
Tate and Lyle export price	£238.6	-1.0
Barley (English feed)	£120.25	-0.25
Maize (US No. 3 yellow)	£148	
Wheat (US Dark Northern)	£101	
Rubber (Jan)♥	49.50p	
Rubber (Feb)♥	50.00p	
Rubber (KL RSS No 1 Jan)	217m	-1
Coconut oil (Philippines)§	$605z	
Palm Oil (Malaysian)§	$375.0u	+2.5
Copra (Philippines)§	$402.5	+10.0
Soyabeans (US)	£144.5	
Cotton "A" Index	61.85c	+0.30
Wooltops (64s Super)	415p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Jan t-Feb/Mar u-Jan/Mar x-Nov/Dec y-Jan/Feb z-Dec/Jan. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX			($ per tonne)	
Raw	Close	Previous	High/Low	
Mar	193.00	195.00	194.00	190.00
May	190.20	194.00	192.20	191.00
Aug	199.00	199.00	196.00	194.00
Oct	199.00	199.00	196.00	
White	Close	Previous	High/Low	
Mar	272.9	276.5	276.0	272.2
May	273.4	277.0	275.8	273.0
Aug	277.8	281.5	280.0	277.5
Oct	260.3		262.5	259.5
Dec	259.3		259.0	
May	260.2	262.9	261.8	

Turnover: Raw 483 (227)lots of 50 tonnes. White 2117 (853)
Paris- White (FFr per tonne): Mar 1507.85, May 1521.84

CRUDE OIL – IPE			$/barrel	
	Latest	Previous	High/Low	
Jan	18.40	18.18	18.57	17.71
Feb	18.36	18.18	18.58	17.78
Mar	18.30	18.11	18.50	17.83
Apr	18.36	18.08	18.36	17.89
May	18.30	18.05	18.30	17.90
Jun	17.90	18.05	17.90	17.85
Jul	17.89		17.89	17.70
IPE Index	18.38	18.45		

Turnover 21887 (25405)

GAS OIL – IPE			$/tonne	
	Latest	Previous	High/Low	
Dec	170.00	171.00	172.50	168.00
Jan	173.00	173.75	175.00	170.50
Feb	172.50	173.75	174.75	170.50
Mar	170.00	170.00	172.00	168.50
Apr	166.50	167.50	169.00	166.25
May	166.00	166.00	168.00	166.00
Jun	168.50	168.00	169.50	168.00
Jul	171.25	170.00	170.50	170.00
Aug	173.50	172.50	173.50	172.50

Turnover 19451 (24371) lots of 100 tonnes

INDICES

REUTERS (Base: September 18 1931 = 100)			
Dec.11	Dec.10	mnth ago	yr ago
1610.3	1611.0	1627.1	1722.9

DOW JONES (Base: Dec. 31 1974 = 100)				
	Dec.10	Dec.9	mnth ago	yr ago
Spot	113.96	116.81	112.98	123.60
Futures	120.83	121.43	121.62	125.95

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
Dec	727	729	738	725
Mar	760	767	770	758
May	784	789	793	782
Jul	809	812	817	807
Sep	832	836	840	829
Dec	860	865	867	860
Mar	887		889	886
Sep	935	941	942	

Turnover: 2740 (1240) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Dec.10 958.54 (980.93) 10 day average for Dec.11 955.84 (954.07)

COFFEE – London FOX			$/tonne	
	Close	Previous	High/Low	
Jan	995	1065	1030	995
Mar	972	1021	1015	970
May	971	1004	1007	970
Jul	984	1007	1003	986
Sep	1010	1023	1015	1000

Turnover:2810 (1212) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Dec.10: Comp. daily 63.81 (63.84) 15 day average 65.38 (65.40)
Sterling close: January £565 , March £ 545

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Apr	118.5	116.9	118.5	117.0
May	137.6	136.5	138.0	

Turnover 144 (29) lots of 20 tonnes.

SOYAMEAL – London FOX			£/tonne
	Close	Previous	High/Low
Jun	120.00	120.00	120.00

Turnover 25 (0) lots of 20 tonnes.

FREIGHT – London FOX			$10/index point	
	Close	Previous	High/Low	
Dec	1553	1576	1582	1554
Jan	1594	1602	1603	1585
Feb	1583	1600	1592	1585
Apr	1596	1610	1602	1585
Jul	1380	1395	1385	1380
BFI	1552	1553		

Turnover 357 (615)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
Jan	123.60	123.70	123.70	123.35
Mar	127.25	127.30	127.30	127.00
May	130.45	130.40	130.40	130.10
Sep	110.25		110.00	
Barley	Close	Previous	High/Low	
Jan	118.95	118.65	118.80	118.75
Mar	122.15		122.10	122.00
May	124.30		123.95	

Turnover: Wheat 349 (207). Barley 149 (4). Turnover lots of 100 Tonnes.

PIGS – London FOX	(Cash Settlement) p/kg		
	Close	Previous	High/Low
Jan	104.7	105.3	
Feb	106.3	107.0	
Mar	107.6	108.0	
Apr	107.5	108.0	
May	107.5	108.0	
Jul	108.5		

Turnover:0 (85) lots of 3,250 kg

MGMI – London FOX					
	Close	Prev.	High	Low	Vol
Indx	130.61	129.84	130.61		
Dec	130.00		130.00		5

LONDON METAL EXCHANGE				(Prices supplied by Amalgamated Metal Trading)		
	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 16,869 lots	
Cash	1090-1	1086-7	1089/1087	1088-8.5		
3 months	1116-6	1111-2	1121/1108	1111-2	1120-20.5	134,804 lots
Copper, Grade A (£ per tonne)					Total daily turnover 24,752 lots	
Cash	1212-3	1207-8	1223/1219	1223-3.5		
3 months	1227-8	1225-5.5	1235/1224.5	1234-4.5	1225-6	105,022 lots
Lead (£ per tonne)					Total daily turnover 5,357 lots	
Cash	296-7	296-6.5		295-6		
3 months	305.5-6.0	304.5-5	306/305	305-5.5	305.5-6.0	15,796 lots
Nickel ($ per tonne)					Total daily turnover 3,455 lots	
Cash	7125-35	7140-50	7125/7120	7120-3		
3 months	7175-80	7175-80	7200/7170	7170-5	7165-70	19,021 lots
Tin ($ per tonne)					Total daily turnover 1,583 lots	
Cash	5522-7	5475-85	5520/5520	5510-5		
3 months	5570-5	5530-5	5570/5535	5568-7	5560-5	4,953 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 9,075 lots	
Cash	1210-2	1189-91	1201/1200	1200-1		
3 months	1167-7.5	1157-8	1169/1155	1166-7	1168.5-9.0	40,929 lots

LME Closing £/$ rate: SPOT: 1.8090 3 months: 1.7834 6 months: 1.7584 9 months: 1.7328

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (fine oz)	$ price	£ equivalent
Close	365.80-366.30	
Opening	367.20-367.60	
Morning fix	367.70	203.915
Afternoon fix	366.50	202.576
Day's high	367.80-368.10	
Day's low	365.70-366.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	4.31	6 months	3.90
2 months	4.18	12 months	3.86
3 months	4.04		

Silver fix	p/fine oz	US cts equiv
Spot	222.40	400.50
3 months	228.15	404.90
6 months	234.25	409.05
12 months	245.75	418.65

GOLD COINS
(Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	366.50-367.50	202.50-203.00
Maple leaf	377.00-378.00	205.25-306.75
New Sovereign	89.00-90.00	49.25-49.75

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Mar	Jun	Mar	Jun
1000	121	149	5	10
1100	46	79	30	37
1200	12	35	93	90
Copper (Grade A)	Calls		Puts	
2100	108	120	23	46
2200	50	69	64	94
2300	18	35	131	157
Coffee	Jan	Mar	Jan	Mar
500	55	54	0	9
550	14	24	8	29
600	1	9	46	64
Cocoa	Mar	May	Mar	May
725	51	81	20	22
750	41	66	31	32
775	31	52	46	43
Brent Crude	Jan	Feb	Jan	Feb
1750	48	50	5	50
1800	10	56	13	74
1850	1	41	64	43

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Dec	366.6	368.9	368.0	366.0
Jan	367.3	369.7	0	0
Feb	368.6	371.1	370.2	367.7
Apr	370.9	373.4	372.3	370.2
Jun	373.2	375.7	374.3	373.1
Aug	375.6	378.1	376.6	375.8
Oct	377.9	380.5	0	0
Dec	380.3	383.0	382.0	379.2
Feb	382.9	385.6	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jan	368.7	371.5	369.6	367.8
Apr	370.9	373.6	372.0	370.2
Jul	373.4	376.1	374.5	374.5
Oct	379.4	382.1	382.0	382.0
Jan	381.7	384.3	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Dec	391.0	397.8	396.0	389.5
Jan	392.3	399.3	396.0	391.0
Feb	393.8	400.8	398.0	391.0
Mar	395.3	402.3	401.0	391.5
May	398.8	406.1	405.0	396.0
Jul	402.1	409.5	407.0	399.0
Sep	405.5	413.0	404.0	404.0
Dec	410.6	418.4	414.0	409.0
Jan	412.7	420.3	0	0
Mar	416.4	424.1	418.5	418.5

WOOL
With only days selling left in Australia before the Christmas recess wool prices are holding very firm. The market indicator has crept up to a new high of 582 cents. Individual categories are often well above the closing level last season, last June, by as much as 20pc. Occasionally the old floor prices basis, abandoned at the end of February, is very close. Sales of stockpile wool in Australia have risen meanwhile with the market and with the approach of the Christmas recess. With production forecasts again reduced for this season, the wool situation is looking a good deal stronger than seemed possible earlier in the year.

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	97.80	97.35	98.10	97.60
Jan	98.00	97.00	98.10	97.50
Feb	97.80	96.90	98.00	97.30
Mar	97.40	96.60	97.60	97.00
Apr	97.25	96.50	0	0
May	97.10	96.45	97.25	96.85
Jun	97.00	96.35	0	0
Jul	96.90	96.30	97.00	96.50
Aug	96.80	96.20	0	0
Sep	96.70	96.15	96.75	96.75

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Jan	19.65	19.41	19.82	18.90
Feb	19.66	19.45	19.91	18.98
Mar	19.70	19.46	19.90	19.04
May	19.70	19.47	19.83	19.10
Jun	19.70	19.47	19.83	19.14
Aug	19.80	19.47	19.77	19.18
Sep	19.80	19.47	19.83	19.18
Oct	19.85	19.50	19.76	19.20

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Jan	5615	5498	5700	5370
Feb	5715	5616	5790	5490
Mar	5685	5579	5725	5460
Apr	5520	5435	5600	5345
Jun	5330	5205	5330	5150
Jul	5340	5195	5360	5150
Oct	5550	5495	5510	5440

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Dec	1237	1241	1240	1230
Mar	1265	1275	1271	1257
May	1302	1311	1308	1296
Jul	1328	1340	1335	1324
Sep	1357	1369	1360	1360
Dec	1394	1406	1390	1385
Mar	1424	1436	0	0
May	1446	1458	0	0
Jul	1469	1481	0	0
Sep	1495	1500	0	0

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	74.70	75.90	75.80	74.40
Mar	78.50	79.75	79.25	78.30
May	81.40	82.40	82.05	81.15
Jul	84.05	85.15	84.75	83.85
Sep	86.75	87.76	87.45	86.60
Dec	90.20	91.40	91.00	90.15
Mar	93.50	94.50	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Mar	8.70	8.92	8.92	8.68
May	8.65	8.84	8.83	8.63
Jul	8.64	8.83	8.82	8.60
Oct	8.61	8.82	8.83	8.61
Mar	8.58	8.80	0	0
May	8.55	8.74	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Mar	59.85	59.68	60.18	59.55
May	61.24	60.99	61.45	61.00
Jul	62.23	62.00	62.45	62.01
Oct	63.90	64.10	64.25	63.90
Dec	64.53	64.74	64.75	64.40
Mar	65.63	65.81	0	0
May	66.00	66.30	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jan	160.75	163.05	164.25	160.00
Mar	162.70	164.30	165.25	161.40
May	162.75	164.70	165.15	162.00
Jul	162.70	164.30	164.30	162.50
Sep	160.95	162.80	0	0
Nov	151.50	152.25	0	0
Jan	149.95	151.00	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Jan	548/2	548/0	552/0	546/4
Mar	553/2	555/0	559/0	554/0
May	563/0	562/6	566/0	561/0
Jul	569/2	570/6	574/0	569/0
Aug	573/0	574/4	576/4	573/0
Sep	575/0	577/0	578/0	575/0
Nov	578/6	580/6	583/0	578/4
Jan	588/4	591/0	0	0

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Dec	19.27	19.04	19.32	19.02
Jan	19.35	19.09	19.40	19.07
Mar	19.64	19.37	19.68	19.36
May	19.91	19.66	19.96	19.66
Jul	20.14	19.96	20.21	19.94
Aug	20.29	20.11	20.35	20.10
Sep	20.39	20.20	20.42	20.20
Oct	20.48	20.20	20.50	20.20

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Dec	170.7	171.3	171.3	169.9
Jan	168.4	169.2	169.6	168.1
Mar	167.3	168.3	168.5	167.0
May	168.8	169.4	169.5	168.2
Jul	170.8	171.7	171.7	170.4
Aug	171.8	172.3	172.5	171.5
Sep	172.2	172.7	173.0	171.7
Oct	186.5	186.5	187.0	185.5

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Dec	240/6	240/4	241/0	239/0
Mar	247/0	246/6	247/2	245/6
May	253/2	252/6	253/2	252/0
Jul	258/2	257/4	258/2	257/0
Sep	255/4	255/2	255/6	253/0
Dec	253/4	252/4	253/4	252/4
Mar	259/4	258/6	260/0	259/4

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Dec	390/6	383/0	391/0	383/4
Mar	383/2	377/4	383/4	377/0
May	361/2	356/6	361/4	356/4
Jul	332/6	329/0	333/0	328/0
Sep	338/4	335/0	339/4	334/4
Dec	350/0	346/4	350/0	346/4

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	71.82	72.87	72.90	71.77
Feb	72.77	73.97	74.15	72.72
Apr	73.32	74.20	74.35	73.25
Jun	69.35	70.10	70.20	69.27
Aug	67.82	68.17	68.20	67.70
Oct	68.45	68.82	68.80	68.32
Dec	69.32	69.75	69.50	69.15

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Dec	40.45	40.65	40.65	40.12
Feb	40.95	40.57	41.05	40.30
Apr	39.00	38.70	39.10	38.55
Jun	44.35	43.97	44.40	43.72
Jul	44.35	44.15	44.40	44.05
Aug	43.35	43.17	43.35	42.90
Oct	40.15	40.17	40.27	40.05
Dec	41.10	41.05	41.10	41.02

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Feb	38.95	37.80	39.50	37.62
Mar	39.07	38.02	39.30	37.75
May	40.22	39.10	40.47	38.90
Jul	40.62	39.55	40.75	39.20
Aug	39.10	38.52	39.50	38.60

LONDON STOCK EXCHANGE

Bear raiders move in on share prices

By Terry Byland, UK Stock Market Editor

THE RESPONSE by UK equities to the Maastricht settlement proved unimpressive yesterday, with the improvement in sterling having little effect on investment sentiment. The stock market moved higher in early trading, reclaiming the FT-SE 2,400 area yet again. But a profits warning from Fisons, and a scattering of bear raids against stocks regarded as vulnerable, drove the market lower again later in the session.

Institutional interest remained thin, and trading volume in the BT new stock was reduced. Dealers said the absence of genuine investment support had left the market open to "scare" tactics; "sell stories are easy to sell just now", commented one broker.

Share prices opened firmer and extended the gain to 10.6 on the Footsie scale in early trading, putting the index at 2,402.6. However, the disclosure by Fisons, the pharmaceutical group, that 1991 profits would be adversely affected because of persistent problems with drug approvals in the US, hit Fisons shares hard and set the market on the downward track. The heavy fall in Fisons' shares represented around two points on the FT-SE Index.

Account Dealing Dates		
*First Dealings:		
Nov 25	Dec 9	Dec 30
Option Declarations:		
Dec 5	Dec 19	Jan 9
Last Dealings:		
Dec 6	Dec 27	Jan 10
Account Day:		
Dec 16	Jan 6	Jan 20

*New-time dealings may take place from 8.30 am two business days earlier.

An attempted rally proved unsuccessful in the face of a weak opening on Wall Street and, with the Dow down by 8.5 in London hours, the London market closed near the day's low.

The closing reading put the FT-SE Index at 2,380.2, down 11.8 on the day. The Footsie 2,400 mark, regarded by the equity chart specialists as an important benchmark, has proved a tantalising guide for the market over the past two weeks. Equity strategists remained unconvinced of the market's ability to consolidate at this level.

The bad news from Fisons, although specific to the company, appeared to discourage investors in the pharmaceutical sector. The halving of profits at Granada, the television and leisure group, failed to upset the company's own share price, but had an adverse effect across the range of advertising-related stock.

The weaker spots in the market were mostly "stock specific," often reflecting determined selling attacks by marketmaking firms. Ladbroke came in for further pressure and the rest of the hotel sector remained depressed by the weakness in leisure industry business.

While the overall investment view was still bleak, there were some indications that investors were prepared to take a more confident attitude towards medium-term prospects. At a global investment conference organised by Kleinwort Benson Securities, fund managers put forward more optimistic forecasts for the UK stock market in 1992 than they did six months ago; forecasts ranged to 18 per cent growth in the Footsie with a Conservative government, to 10 per cent with a Labour government. However, Mr Nicholas Knight, the bearish strategist at Nomura Research Institute, said that whether the market bottoms out at Footsie 2,300 or "substantially lower" still hangs in the balance. He sees no sign that global equities have found a floor.

● The FT-SE 100 Steering Committee announced yesterday that with effect from Jan 2 next year, Tomkins, MB-Caradon and Laporte will join the constituent list of the FT-SE 100 Index while Asda, Lucas Industries and BICC will be removed.

FINANCIAL TIMES STOCK INDICES

	Dec 11	Dec 10	Dec 9	Dec 6	Dec 5	Year Ago	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs	86.97	86.81	86.65	86.70	86.54	83.39	87.94 (18/9)	82.17 (2/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.00	96.76	96.67	96.70†	96.34	91.17	97.17 (2/10)	90.59 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share ●	1809.4	1819.7	1830.0	1802.8	1822.4	1692.2	2108.3 (2/9)	1606.3 (16/1)	2108.3 (2/9/91)	49.4 (26/6/40)
Gold Mines	164.3	169.7	166.9	163.5	163.9	141.8	222.8 (11/7)	127.0 (22/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2380.2	2392.0	2409.6	2388.7	2407.0	2156.9	2679.6 (2/9)	2054.8 (16/1)	2679.6 (2/9/91)	986.9 (23/7/84)
FT-SE Eurotrack 200	1082.86	1085.32	1088.51	1086.91	1096.92	-	1198.60 (3/9)	938.62 (16/1)	1198.60 (3/9/91)	938.62 (16/1/91)
●Ord. Div. Yield	5.08	5.06	5.03	5.09	5.06	5.68				
●Earning Yld %(full)	7.61	7.58	7.53	7.61	7.57	11.85				
●P/E Ratio(Net)(☆)	16.52	16.58	16.70	16.51	16.59	10.19				
SEAQ Bargns 4.45pm	20,881	22,235	25,952	27,116	24,252	38,640				
Equity Turnover(£m)†	-	867.74	814.72	881.43	937.84	1162.87				
Equity Bargains†	-	21,808	26,769	27,614	22,158	47,152				
Shares Traded (ml)†	-	444.5	472.7	499.0	501.6	515.0				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 15.59. †Correction

Ordinary Share Index, Hourly changes Day's High 1827.1 Day's Low 1809.4

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1819.7	1821.5	1811.9	1811.5	1816.6	1819.0	1819.0	1816.6	1812.2

FT-SE 100, Hourly changes Day's High 2402.6 Day's Low 2378.2

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2392.6	2397.9	2381.5	2380.8	2388.8	2390.8	2391.9	2389.0	2383.4

FT-SE Eurotrack 200, Hourly changes Day's High 1085.49 Day's Low 1078.22

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1081.91	1079.02	1079.59	1081.94	1084.06	1084.01	1084.38

GILT EDGED ACTIVITY

Indices*	Dec 10	Dec 9
Gilt Edged Bargains	89.5	83.3
5-Day average	76.3	73.5

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001

Float hopes aid C and W

CABLE AND Wireless, one of the Footsie's strongest performers over the past couple of days, gave another powerful showing yesterday amid suggestions that the company may be considering the flotation of its Mercury telecommunications subsidiary.

The shares closed 12 higher at 560p, extending the rise in the stock over three sessions to 26½. Turnover was a keen 1.7m shares.

The Mercury stories, which have been mooted in the market on numerous occasions in the past, were also accompanied by rumours that AT&T, of the US, among the world's biggest telecommunications groups, may take a stake in C and W.

C and W is currently visiting UK stockbrokers. On Tuesday the company met James Capel, and yesterday it gave a presentation at County NatWest. Today the group is scheduled to address institutions in Scotland.

Fisons hit

Pharmaceuticals group Fisons was hit hard yesterday after an uninspiring announcement from the company on the progress of a number of its products. The shares plummeted 47 to 330p.

The stock was sold heavily as the market opened. It recovered slightly but a second wave of selling sent it down by almost 20 per cent. At that stage, the shares' relatively good value inspired enough two-way business to enable them to find a floor.

Turnover of 16m was between four and five times higher than the average, and the closing price was the lowest since September last year. It also takes the shares back to their level before the crash of October 1987.

Fisons announced, first thing yesterday, that the expected US approval for two of its drugs, Opticrom and Inferon, was not forthcoming and the effect on profits would be about £33m. It also failed to reassure the market over its anti-asthma drug Tilade.

Analysts, who had already cut their end-of-year forecasts, immediately reduced their estimates by a further £50m, taking the range back to between £180m and £190m. They also cut back their 1992 predictions by around £45m.

Investors were said to be switching out of Fisons and into Wellcome, which moved up 10 to 912p.

Granada steady

With the worst aspects of Granada Group's final results having already been discounted by the market, the shares managed to rise 3 to 172p. However, analysts expressed disappointment at the company's presentation and remain cautious about the stock, particularly in the short term. The group's accounting of its BSkyB exposure worried many, as did the £30m write-off for the assets of Spanish property group Kapy.

Mr Nigel Reed at Paribas, the French investment bank, said: "The group's disposal and rationalisation plans are likely to boost revenues in the short term – but they are all one-offs. I remain unconvinced about a lot of things."

Standard wanted

Standard Chartered showed the rest of the banking sector a clean pair of heels, the shares accelerating smoothly during the afternoon to close 13 higher at 406p, after a strong buy recommendation from County NatWest.

County visited Standard yesterday and came away with a positive view of the bank's current trading. "It is going much better than expected in the UK for Standard, with provisions coming right down after a bad first half," said Mr John Aitken, one of County's banking specialists.

He added that the return to profitability in the UK and a strong showing by the Hong Kong side of the business led him to pencil in a full-year profits prediction of £210m to £220m and an unchanged final dividend.

Oil specialists confessed to confusion as the Lasmo bid for Ultramar continued to rumble on ahead of next Wednesday's closing date for the bid. "The share prices tell you the Lasmo offer looks like failing but the institutions indicate they will accept," said one analyst. He pointed out the increasing gap between the bid price and existing Ultramar share price.

The latter settled 11 lower at 254p on heavy turnover of 3.7m, while Lasmo lost 5 to 247p. It was pointed out that the Ultramar share price briefly dipped below that of Lasmo. The late rise in Ultramar was said to have reflected a sudden flurry of US buying.

British Gas ran up to 247p prior to closing a net 8 higher at 245p, boosted by the Strauss Turnbull buy recommendation, the bad weather in the UK and a stock shortage.

The shortage of stock developed earlier in the week when the market braced itself to accommodate an expected large block of shares from British Gas employees, who bought the shares at the time of their flotation in 1991. From last Monday, five years after the flotation, the stock could be sold tax free. In the event only 3m of a possible 20m were sold.

Shares in BP and Shell gave further ground as reports circulated that James Capel, the London broker, had followed others in downgrading profits.

There was more downward pressure on BT "new", where turnover continued to shrink after Monday's 253m shares traded and Tuesday's 64m. Yesterday some 13m changed hands, with sellers continuing to get the upper hand and driving the "new" down to 122¼p before a rally to 123¾p at the close, a net loss of ¾.

There were further suggestions that the government's stabilisation process may have been triggered yesterday. There are worries in the market that December 18, when small investors receive their share certificates, will see another wave of selling.

BT "old" shares fell to 324½p before steadying and closing unchanged on balance at 327p; turnover was 7.6m shares.

Rumours of possible property write-downs continued to undermine Ladbroke. Some estimates put the figure as high as £100m, with the group's US portfolio particularly affected. To add to the group's woes, Nikko Securities yesterday became the latest securities house to downgrade Ladbroke. Nikko shaved £15m off its profits forecast for this year to £200m and £39m off next year's to £275m.

Talk of a $175m redundancy charge facing Rank Xerox in the US left Rank Organisation 15 lower at 555p.

Pubs and hotels operator Greenalls Group gained 16 to 365p on well received full-year results. Firm profits also lay behind H.P. Bulmer's advance of 12 to 272p.

Switching out of Glaxo and into SmithKline Beecham ensured that the former lost 14 to 788p and SmithKline gained 8 to 821p.

United Newspapers fell 25 to 342p following a cut in profits forecasts by BZW and talk of bear raids. The securities house reduced its 1991 estimate by £5m to £83m and its 1992 figure by a similar amount to £100m after speaking to the company.

Textile and engineering group William Baird dropped 22 to 197p after the company advised analysts that its profits would be below previous estimates.

Analyst Mr Lawrence Rubin of S.G. Warburg cut his 1991 profits estimate by £2.5m to £25.5m and next year's by £4m to £31m, but said that at present levels the shares "looked fairly valued considering the combination of textiles and engineering".

Northern Ireland-based textile group Lamont Holdings fell 19 to 343p. One investor was said to have sold aggressively on belated consideration of recent cuts in profits forecasts by broking houses.

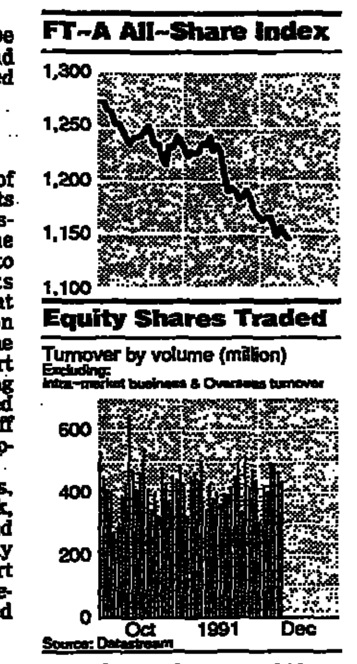
ERF Holdings forged ahead 23 to 263p after reporting first-half figures showing a return to profitability for the company. A previous loss of £1.37m was turned into a profit of £330,000.

Glynwed International continued the advance begun earlier this week and gained 4 to 202p as fears for the current-year dividend faded. The company is at present doing the round of City institutions.

The strengthening of the management at British Aerospace by the appointment of a deputy chief executive, together with news that the company may not have to repay £44.4m of illegal government subsidies, cheered investors. The shares added 9 at 333p in healthy turnover of 3.4m.

MARKET REPORTERS:
Peter John, Joel Kibazo,
Christopher Price,
Steve Thompson.

■ Other market statistics, including the FT-Actuaries Share Indices and London Traded Options, Page 21.



NEW HIGHS AND LOWS FOR 1991

NEW HIGHS (18).
BRITISH FUNDS(2) Conv. 9pc 2011 B, Tr. 9pc 1992, BREWERS & DISTILLERS (1) Bulmer (HP), BUSINESS SERVICES (2) Inchcape, Security Archives, CONTRACTING & CONSTRUCTION (1) Ball (AH), ELECTRICALS (1) Stick, ELECTRONICS (2) Oceonics, Sage, FOOD MANUFACTURING (2) Unilever, Unilever NV, HOTELS & LEISURE (1) Airbreak, INVESTMENT TRUSTS (2) Murray Enterprise, Do. Zero Ln. 1994, MOTORS (1) Plaxton, OTHER FINANCIAL (1) Sterling Tst., PACKAGING, PAPER & PRINTING (1) Boxmore, PROPERTY (1) Baker Harris Saunders.
NEW LOWS (82).
AMERICANS (5) Citicorp, Pennzoil, Tenneco, Texas Instrs., Varity, CANADIANS (4) Can. Pacific, Gulf Canada, Imperial Oil, Nova Corp of Alberta. BUILDING MATERIALS (2) Redland, Travis Perkins, CHEMICALS (1) Sutcliffe Speakman, CONGLOMERATES (4) Gleves, Hanson Wrrnts., Do. 9½pc Cnv., CONTRACTING & CONSTRUCTION (3) Birse, Ward Hldgs., Wescol, ELECTRONICS (3) AB Elect., Amstrad, Sema, ENGINEERING GENERAL (3) Beauford, Do. 7p Prf., Ferrum, FOOD RETAILING (3) Albert Fisher, Hunter Saphir, Low (Wm), HEALTH & HOUSEHOLD (1) Fisons, HOTELS & LEISURE (2) Marina Devs., Sleepy Kids, INSURANCE BROKERS (1) Durham (DG), INSURANCE COMPOSITE (1) Trade Indemnity, INSURANCE LIFE (2) Lon. & Manchester, Utd. Friendly B, INVESTMENT TRUSTS (4) Abtrust New Dawn B Wrrnts., Drayton Recovery Ptd. Gth., Sphere, TR Prop., MEDIA (7) Aegis, Black (A & C), Lopex, MMI, Saatchi, Shandwick, TV-am, METAL & METAL FORMING (6) Brit. Steel, Claybithe 9pc Ln. '00-01, LASMO, Linread, Tinsley (Eliza), MOTORS (1) Volkswagen, OIL & GAS (9) Blystad, Brit. Petroleum, Calm Energy, Crossroads Oil, Expln. Co. of Louisiana Wrrnts., Hardy, Pict Pet., Presidio, Sceptre Res., OTHER FINANCIAL (6) Aberdeen Tst., FNFC 5.3pc Prf., Garrard & National, JF Pacific Wrrnt., JF Philippine Fd., Union Discount, OTHER INDUSTRIAL MATERIALS (1) Whitecroft, PACKAGING, PAPER & PRINTING (1) Repola, PROPERTY (6) Barlows, Capital & Counties, Derwent Valley, Hammerson A, London Merchant Old., Ossory Ests., STORES (1) Stylo, TEXTILES (2) Baird (Wm.), Lister, TRANSPORT (2) Eurotunnel Uts., Do. Wrrnts., MINES (2) Kenmare, Renison.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change
ACT	480	283	+2	Cookson	701	106		Lucas	412	111	+3	Shell Transport	3,300	488	-7
ASDA Group	6,200	31	-2½	Courtaulds	80	460	+2	MB Caradon	590	252	+5	Siebe	176	423	-7
Abbey National	644	281	+1	Dalgety	558	351	+4	MEPC	343	411	+6	Slough Ests	174	233	-1
Albert Fisher	6,430	62	-4	De La Rue	151	450	+4	Manweb	353	302	+1	Smith (W.H.) A	998	452	-2
Allied-Lyons	881	584	-3	Dixons	2,500	215	-3	Marks & Spencer	4,400	281	-6	Smith & Nephew	4,200	129½	-1
Amstrad	2,000	26		ECC Group	305	458	+4	Midland Bank	1,700	195	+1	SmKl Beecham	2,800	821	+8
Anglian Water	304	340	+4	Eastern Elect.	733	236	+5	Midlands Elect.	1,200	258	-3	SmKl Beecham Uts.	41	3738	+72
Argos	802	271	+1	East Midland Elect.	639	245	+3	NFC	1,700	212	-1	Smiths Inds.	118	283	+2
Argyll Group	1,200	281	-2	Enterprise Oil	882	452	-3	NatWest Bank	2,100	284	+2	Southern Elect.	80	253	+3½
Arjo Wiggins	1,800	256	-4	Eurotunnel Units	1,300	355	+3	National Power	2,900	147	+3	South Wales Elect.	213	288	+2
Ass. Brit Foods	37	453	-1	FKI	297	53	+1	Next	4,900	57	-3	South West Water	172	311	+4
BAA	1,700	506	+1	Ferranti	256	6½		North West Water	990	333		South West. Elect.	180	257	+4
[illegible]				[illegible]				[illegible]				[illegible]			
British Land	384	278		Hillsdown	569	169	+1	Redland	1,200	934		Unilever	1,500	845	+1
BP	13,000	284	-4	IMI	468	212	-3	Rolls Royce	8,800	123	+2	United Biscuits	534	377	+1
British Steel	11,000	67	-2½	ICI	1,200	1133		Rothmans	208	1033	-21	Utd. Newspapers	1,000	342	-25
British Telecom	7,600	327		Inchcape	1,400	421	+27	Ryl Bk Scotland	390	155		Vodafone	2,200	366	+7
Br Telecom New	14,000	123½	-1	Kingfisher	357	499	-7	Royal Insurance	846	250	-2	Warburg (SG)	1,100	519	+1
Bunzl	402	77	-1	Ladbroke	7,700	202	-15	Saatchi	7,300	9¼	-1¼	Wellcome	1,000	912	+10
Burmah Castrol	389	505	+1	Land Securities	509	470	+4	Sainsbury	1,700	350	-3	Welsh Water	224	346	+2
Burton	513	34	-½	Laporte	376	600	+4	Scottish & New	413	400	-4	Wessex Water	107	384	+3
Cable & Wire.	1,700	560	+12	Legal & General	418	345	+3	Scot. Hydro-Elect.	210	101		Whitbread 'A'	297	410	-4
Cadbury Schweppes	415	421	-2	Lloyds Abbey	887	342	-1	Scottish Power	2,100	100	+1	Williams Hldgs.	1,200	302	-2
Calor Group	244	222	+3	Lloyds Bank	2,500	354		Sears	4,900	85	-2	Willis Corroon	978	246	-2
Carlton Comms.	330	450	-8	LASMO	3,600	247	-5	Sedgwick	292	202	-2	Wimpey	484	140	-1
Coats Viyella	524	170	+1½	London Elect.	484	243	+7	Seeboard	10	258	+4	Yorkshire Elect.	377	391	+5
Comm. Union	187	448	-2	Lonrho	3,500	159	-7	Severn Trent Water	197	305	-1	Yorkshire Water	400	336	+3

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

POOR sentiment in the underlying cash market triggered a wave of selling in Footsie futures, writes Joel Kibazo.

A bounce in the December contract, as traders moved to close positions early in the session, gave way to nervous selling after Fisons warned that continuing US drug approval problems would have a significant impact on 1991 profits.

That announcement served to reinforce worries about the gloomy economic outlook and December experienced further falls with the poor performance on Wall Street.

December closed at 2,380, down 15 on the previous session but at the same premium to the underlying cash market. Further falls in after-hours' trading suggested a poor opening today.

Trading in the options market was featureless as turnover reached 22,351 contracts.

Forte, the subject of recent forecast cuts, was the busiest stock option with 2,821 contracts dealt. The March 220 puts was the busiest series, with S.G. Warburg reported to have carried out a large trade.

Amstrad was the second most active option with 1,148 lots. A big buyer of Cable and Wireless calls accounted for a large part of the day's total of 1,058 contracts.

LONDON SHARE SERVICE

BRITISH FUNDS

	Notes	Price £	+ or -	1991 high	1991 low	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)							
Treas 8pc 1991		99¹³⁄₃₂xd	—	99¹³⁄₁₆	95¹³⁄₁₆	8.82	–
12¾pc 1992‡‡		100⅝	—	101½	100⅝	12.73	10.36
10pc 1992		99⅞	—	100⅝	97⅞	10.02	10.13
2pc IL 1992‡‡		134⅛	—	134⅛	125⅞	1.97	8.00
8pc 1992 ‡‡		99⅛	—	99¼	95¹¹⁄₁₆	8.07	10.04
10½pc Cv 1992‡‡		100⅛	—	100⅝	98½	[illegible]	[illegible]
[illegible]							
Five to Fifteen Years							
[illegible]							

BRITISH FUNDS - Cont.

	Notes	Price £	+ or -	1991 high	1991 low	Yield Int.	Yield Red.
15½pc '98‡‡		127⅛	+⅜	128¾	121¾	12.19	9.92
Exch 12pc 1998		110¹³⁄₁₆	+⅜	111⅞	104⅜	10.84	9.83
Treas 9½pc 1999‡‡		99⅞xd	+⅜	100⅞	92⅞	9.53	9.55
Exch 12¼pc 1999		112¼	+⅜	113⅝	105⅞	10.91	9.84
Treas 10½pc 1999		103⅜	+⅜	104⅞	97⅜	10.10	9.73
Conversion 10¼pc 1999		102⅞	+⅜	103⅝	95⅞	9.97	9.72
9pc 2000‡‡		97	+⅜	97⅞	88⅞	9.28	9.52
[illegible]							

BRITISH FUNDS - Cont.

	Notes	Price £	+ or -	1991 high	1991 low	Yield (1)	Yield (2)
Index - Linked	(b)						
Treas. 2pc '94	(102.9)	122⅞	—	123¾	115⅞	2.77	3.78
2pc '96	(67.9)	177⅞	—	177⅞	168⅞	3.49	4.02
2½pc '01	(78.3)	144	+⅛	145⅝	137⅞	4.01	4.31
2½pc '03	(78.8)	138⅞	+⅛	141⅞	133	4.08	4.34
2pc '06	(69.5)	141½	+⅛	142⅞	135	4.18	4.36
[illegible]							

OTHER FIXED INTEREST

[illegible]

APPOINTMENTS

Taking the wheel at Tec secretariat

Nigel Chilcott, a former Royal Navy Commander, has been appointed as head of a new secretariat which will support the network of 82 Training and Enterprise Councils (Tecs).

The job will not be that of a director-general but more of a permanent secretary to the movement. It will be a sensitive post because the Tecs value their independence but at the same time have recognised there is a need for improved communication between them.

Chilcott, 49, who was appointed by a board of Tec chairmen and chief executives, would appear well-suited to the post on two main counts.

Dartmouth-trained, he lists among his long career at the navy that of staff secretary to a Nato commander, a job which he says demanded sensitivity to different nationalities. He understands the value of training and says he is appreciative of what Tecs are striving to achieve. The navy, he says, takes in people who are often unqualified and generally turns them out as highly qualified individuals, for example, in technical areas and in catering. "I am convinced of the benefits of training," he says.

Chilcott will be based in Redditch; Tecs wanted their new secretariat to be situated between the Department of Employment in London and the Training, Enterprise and Education Department in Sheffield, which administers government policy.

● Lord Stockton, president of Macmillan, the publisher, has been appointed to represent London Tecs on G10, the group of 10 chairmen which acts as the co-ordinating body for Tecs. He is chairman of Centec, the Central London Tec and replaces David Dickinson, chairman of London East.

Founder goes non-executive

Jim Farrer, one of the two founders of The BERKELEY Group, the Surrey-based housebuilders, will hand over the chairmanship to Graham Roper, the newly promoted deputy chairman, on May 1. Farrer's co-founder, Jim Pidgley, remains as chief executive.

Farrer, who was a senior executive with Crest Nicholson before founding his own business in 1976, says he had planned to retire two years ago when he reached 60. However, he felt it was important to stay until the group's recession-hit profits, which slumped from £22m in 1989 to less than £1m last year, started to recover.

Berkeley was anxious not to upset City investors by making Pidgley combine the role of chairman and chief executive, hence the rather unusual promotion of Roper to the post.

Farrer, who will remain a non-executive director, says that the group is likely to appoint at least one outside director to its board which is currently all executive. In addition, a replacement is being sort for Tony Heywood, the group's finance director who resigned abruptly last week, but Farrer denies that the departure had anything to do with yesterday's top management reshuffle.

Berkeley has raised over £90m since it went public in 1985. Although there has been criticism of the amount of equity issued, Farrer says the shares have risen seven fold.

Departures

■ Leslie Silver, the founder and chairman of KALON, is retiring at the end of the year.
■ Hugh Dibley is resigning from PROPERTY SECURITY INVESTMENT TRUST.
■ Colin Cooke has resigned from the board of MAGNETIC MATERIALS GROUP following his move to Triplex Lloyd.
■ Robert Hubble has resigned from USHER-WALKER.
■ Paul Bosonnet, deputy chairman, and Sir Leslie Smith, a non-executive director, are retiring from BOC.
■ Harry Westrop, group md of Beckenham, is resigning in order to develop his other business interests.
■ Ken Anderson is retiring from BUNZL.

■ Sir Bernard Ashley, whose family interests hold a 59 per cent controlling stake in LAURA ASHLEY, has decided to become non-executive chairman of the group. Following the appointment of Jim Maxmin as chief executive in July, Sir Bernard says "it is timely to implement a smooth transition to new management". He is concentrating his attention on Ashley Inns, an upmarket hotel chain.

John Owen, who is Merrill Lynch's md responsible for US institutional equity sales in London, has been appointed chairman of the UK Association of New York Stock Exchange Members. This comprises 34 NYSE member firms with offices in London. Bob Siegel of Oppenheimer is the new deputy chairman.

■ Christopher Ross, md of Ricardo Consulting Engineers, is appointed a director of RICARDO INTERNATIONAL. Cecil French will retire as a non-exec in April.
■ David Bridge is appointed group finance director of PLATIGNUM.
■ Peter Zinkin, BICC's director of planning and development, is appointed to the main board.
■ Peter Davis, partner in charge of Price Waterhouse MCS France, is appointed director of European management consultancy services and will join the European management board. His predecessor, Neville Cheadle, is retiring.

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1991 high	low	Mkt Cap£m	Yld Gr's
Abbott Labs		33½xd	-⅛	34⅝	20⅞	14,129	1.7
♥Allegheny & W.		258p	—	385p	218p	133.8	6.6
Amdahl		780pxd	—	16⅛	887p	775.6	0.8
Amer Cyanamid		31	-½	42⅛	25⅛	2,909	2.7
Amer Express		10⅞xd	+⅛	17⅞	9⅛	4,984	5.4
Amer T & T		20⅞xd	+⅞	24½	15¼	27,298	3.6
Ameritech		34⅞	+⅛	38⅞	32½	15,268	6.5
BankAmerica		17⅞xd	-⅛	28⅞	12⅞	3,791	3.9
Bankers NY		34⅞xd	+⅛	38⅞	20⅞	2,838	7.9
Bell Atlantic		26xd	+⅛	30½	24¼	10,225	5.4
BellSouth		28⅛	+⅛	31¼	25	12,793	5.9
♥Bethlehem Steel		6⅞xd	—	11¼	6⅞	514.1	3.3
Bowater		1008p	+19	1839p	1046p	387.9	6.2
CPC		47¾xd	+⅛	34⅞	37⅞	3,689	2.4
California Engy		816p	—	938p	420p	148.6	—
Campbell Soup		43¼xd	+½	50	28⅛	5,427	1.9
Chase Manhattan		8⅛	—	12⅞	5⅞	1,127	8.2
Chrysler		6xd	-¼	9⅞	5½	1,729	5.6
Citicorp		6⅞xd	-⅛	10⅞	5⅞	1,867	—
Colgate-Palm		24⅛xd	+⅛	28⅝	21⅞	3,484	2.5
Cont'l Bank		470p	-15	920p	430p	474.8	7.2
Dana		14⅞xd	+⅛	21⅝	13⅞	580.9	6.3
Data General		835p	+10	1262p	203p	280.4	—
Dial		22¾xd	+¼	25⅝	12⅞	898.7	3.5
Dun & Brad		27½	-¼	29⅝	20¼	4,989	4.4
Eaton		31⅝	-⅛	40	24¼	1,976	3.9
Echlin		6xd	+⅛	8½	5½	335.1	6.6
FPL		19¾xd	+½	20⅛	14⅞	3,347	6.8
Fluor		20⅞xd	+⅞	30⅞	17⅞	1,854	0.9
Ford Motor		13⅞xd	+⅞	23¼	13	6,331	4.2
Gen Elect		35⅛xd	+⅞	45⅞	28⅞	31,306	3.2
♥General Host		422p	—	500p	270p	—	4.8
Gillette		26¼xd	—	45¾	20⅞	5,738	1.3
Hasbro		19⅞	—	28⅞	794p	1,133	0.7
Honeywell		32⅞xd	-⅛	38½	21¾	2,283	2.9
Houston Inds		23¼	-⅛	28½	17⅞	2,987	7.2
IBM		47⅞xd	+1	72⅞	46⅞	27,425	5.7
Ingersoll-Rand		23⅞xd	+⅛	32½	18⅞	1,241	3.1
Lockheed		23⅝xd	+⅛	28⅛	18⅞	1,495	4.8
Lowe's		1455p	-14	2169p	1245p	539.6	2.2
Man Hanover	♦	12¼xd	-⅛	18⅞	9½	981.6	15.0
Merrill Lynch		27¾xd	+½	32⅞	10⅞	2,848	2.0
Morgan (JP)		34⅞xd	+⅛	38¼	21⅞	6,490	3.2
Morris (Philip)		39⅞xd	+¼	44¼	25⅞	35,354	3.1
NYNEX		42	+⅛	46¾	39	8,496	6.1
♥Pac Agric.		28½p	—	89p	15p	—	—
Pall	h	18⅞	+⅛	23⅞	15⅞	1,183	1.3
Pennzoil		30⅞xd	-⅛	48⅛	30⅞	1,240	5.5
Quaker Oats		38⅞xd	+⅛	40½	24⅞	2,973	2.5
Rockwell		14⅛xd	+⅛	17⅞	12⅛	3,298	3.7
Rep NY		22½xd	+⅛	27⅞	16½	1,170	2.5
Sears, Roebuck		18⅝xd	—	25⅝	12⅞	6,486	6.0
Sthwestern Bell		32⅝xd	+⅝	34½	25⅝	9,782	4.9
Sun Co.		14¾xd	+⅞	20¼	14⅞	1,584	7.0
Tenneco		17¼xd	-⅞	27¼	17¼	2,112	5.2
Texaco		31⅝xd	+⅞	48½	29⅞	8,174	5.7
Texas Instr.		14⅞xd	-⅞	28⅛	14⅞	1,219	2.7
Time Warner		45⅝xd	—	64½	37⅞	4,189	1.2
TRINOVA		9⅞xd	+⅞	16⅞	8⅞	282.8	4.1
♥Unilab		580p	—	585p	250p	472.8	—
Utd Tech.		25⅝xd	+⅞	29⅞	22⅞	3,081	3.9
♥Utilitech		68p	—	90p	42p	—	—
US West		18⅞	—	23	18¼	7,711	6.2
Varity		78p	-4	182p	78p	19.0	—
Waste Manage		21⅝xd	+⅞	24⅞	16⅝	10,223	1.1
Whirlpool		1780p	+61	2340p	1063p	1,257	3.5
♥Woolworth		14⅛	+⅞	20⅞	13½	1,842	4.3

CANADIANS

	Notes	Price £	+ or -	1991 high	low	Mkt Cap£m	Yld Gr's
♥Abbot Energy		2p	—	11p	2p	—	—
Amer Barrick		1473p	—	1477p	953p	2,619	0.3
Bk Montreal		20¼	-¼	20⅞	13	2,417	5.3
Bk Nova Scot		989pxd	-18	1020p	536p	1,976	5.2
♥BC Gas		779p	—	852p	633p	—	3.9
BCE		22⅝	-⅞	24	17¼	6,971	6.5
♥Brascan		868p	-11	10½	647p	709.2	6.2
♥Breakwater		11¼p	—	89p	9p	7.18	—
Can Imp Bk		1539p	-57	1725p	1180p	2,829	4.3
Can Pacific		823p	-23	11	823p	2,621	0.2
4pc Deb		35½	—	36	30	18.6	11.3
[illegible]							

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING - AEROSPACE

[illegible]

ENGINEERING GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HEALTH & HOUSEHOLD - Cont.

[illegible]

HOTELS & LEISURE

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MISCELLANEOUS - Cont.

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

‡‡Ivernia West IE	47	-1	61	30	14.9	—
‡‡Kells Mins IE	48	+2	48	33	0.97	—
‡Kenmare	6xr	-1	25	5½	5.78	—
‡‡Navan Res IE n	16	—	28	15	9.87	—
Northgate Expl C$ s	48¾	—	99	47	6.15	—
North West Expl A$	8	—	16	5	2.02	—
Orys Gold $	123	—	188	82	—	—
‡‡Ovoca Gold IE	11	—	23	10	0.77	—
Plateau	18	—	44	16	2.88	—
■RTZ	488	-8	605	404	4,868	5.6
♥Thorco Res	4⅞	—	11	3¼	—	—
‡Vizcaya	2½	—	10	2	1.34	—
♥Western & Pac C$	18½	—	152	18½	18.7	—
‡Young Grp	108	—	139	106	9.98	6.5

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, *excluding exceptional profits/losses and unrelieved ACT where applicable.* Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Subject to local tax.
z Dividend yield includes a special payment
E Minimum tender price.
F Yield based on prospectus or other official estimates for 1990-91.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1991.
K Yield based on prospectus or other official estimates for 1990.
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1991-92.
N Yield based on prospectus or other official estimates for 1989-90.
P Figures based on prospectus or other official estimates for 1991.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1150 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 48p per minute peak and 36p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

For Geoffrey Morley see Commercial Union

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often well above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♣) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

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	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Sovereign Unit Tst Mngrs Ltd (1000)F						
Christchurch Rd, Bournemouth 0202 298422						
[illegible]	1	49.88	49.88d	50.38	+0.01	10.6
Gld Prfshrs	5½	47.79	48.08	51.29	+0.05	9.41
[illegible]al	5¼	45.85	46.85	49.84	-0.21	5.18
[illegible]pean Growth	5½	43.90	44.06	47.00	-0.77	3.3
[illegible]	5¼	43.68	44.18	47.12	-0.13	8.23
Growth	5¼	59.88	60.01	64.01	-0.44	3.52
[illegible]aged	5½	53.77	54.13	57.74	-0.48	4.90
Growth	5¼	47.58	47.58	50.75	-0.38	6.23
Standard Chartered Equitor (1200)F						
Old Broad Street, EC2N 1QS 071-280 6521						
gt Exempt Acc	3	182.2	184.4	192.0	-1.2	0.21
[illegible]	3	173.9	175.9	183.2	-1.2	0.21
Standard Life Tst Mgmt Ltd (0629)H						
George St, Edinburgh EH2 2XZ 0800 393777						
Managed Acc	5¼	33.73	33.75	35.86	-0.2	2.68
Equity Gth Acc	5¼	45.80	46.66	49.58	-0.1	2.27
Eq High Inc Inc	5¼	27.62	28.35	30.13	-0.1	6.83
Eq High Inc Acc	5¼	31.05	31.87	33.87	-0.1	6.83
Equity Gen Acc	5¼	43.35	44.08	46.84	-0.2	3.72
Equity Gen Inc	5¼	33.92	34.50	36.66	-0.2	3.72
Larger Cos Acc F	7½	283.9	288.0	312.5	-1.3	4.91
Larger Cos Inc F	7½	228.6	231.8	251.6	-1.1	4.91
I & Fxd Int Inc	5¼	27.68	27.75	29.35	.....	7.89
Int Lrg Cos Acc F	7½	199.0	202.9	220.2	-1.5	2.19
American Acc	5¼	32.61	32.80	34.86	+0.1	0.81
Far East Acc	5¼	38.15	39.10	41.55	-0.4	0.15
European Acc	5¼	31.66	33.25	35.33	-0.3	1.84
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American	5	268.4	268.4xd	287.4	-2.2	0.81
(Accum Units)	5	315.9	315.9	338.3	-2.6	0.81
High	5	774.8	784.8	830.3	+0.1	6.25
(Accum Units)	5	1273.0	1289.4	1364.2	+0.2	6.25
European	5	303.1	303.1	322.8	-5.0	1.58
(Accum Units)	5	328.6	328.6	349.9	-5.4	1.58
Japan	5	105.2	105.2	112.0	-1.1	-
(Accum Units)	5	106.0	106.0	112.9	-1.1	-
New Pacific	5	163.8	163.8	174.9	-0.6	1.98
(Accum Units)	5	168.2	168.2	179.6	-0.6	1.98
PEP Dec 4	5	139.1	140.5	148.7	-1.7	3.78
Mngd Equity	5	117.2	118.5	125.4	-0.7	3.63
Mngd Equity Acc	5	124.3	125.7	133.0	-0.8	3.63
Mngd Cash	5	96.81	96.81	99.72	+0.02	10.25
(Accum Units)	5	117.0	117.0	120.6	+0.1	10.25
Majority Stkg	1	100.85	100.85	101.86	+0.02	10.06

	Bid Price	Offer Price	+ or -	Yield Gross
Funds in Court*				
Capital Nov 28	480.30	483.83	.....	2.92
Gross Nov 28	179.53	180.97	.....	10.78
High Yield Nov 28	279.39	281.42	.....	7.81
* Restricted to monies under Court control				
Henderson Unit Trust Management Ltd				
Pensions Mngd	49.87	50.92	-0.23	4.00
INVESCO MIM Management Ltd				
Exempt Funds				
Intl Mngd P'Folio	1103.0	1190.0	.....	-
Mngd Pens (Acc)	63.5	67.7	.....	-
Lazard Brothers & Co. Ltd				
Property Sept 5	£2440.0	2680.0	.....	6.00
Inc Gth Prp Apr 14	£1375.0	1460.0	.....	7.20
Lazard Investors Ltd #				
Exempt Funds				
Small Co's Dec 11	£3815.7	3983.5	-130.60	4.30
European Dec 11	£522.5	528	-10.00	2.15
American Dec 11	£325.9	329.1	-5.30	2.47
Japan Dec 11	£462.6	467.8	-12.30	1.39
Pacific Dec 11	£130.1	133.6	-4.50	2.07
W Midlands Sep 30	£136.50	152.30	.....	2.48
Local Authorities Mutual Invest. Tst.*				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Property Nov 30	193.55	197.40	.....	7.96
Equity Nov 30	834.90	846.60	.....	4.13
* Available only to Local Authorities				
M & G Securities Ltd				
Charibond Dec 10	102.67xd		+0.2	10.49
(Accum Units)	606.85		+1.3	10.49
NAACIF Dec 10	40.07xd		-0.1	9.69
Morgan Grenfell Investment Funds Ltd				
Exempt Funds				
UK Equity † Dec 10	119.6	128.6	.....	2.12
UK Small Co † Dec 10	519.2	569.8	.....	3.31
Fixed Interest † Dec 10	108.7	114.3	.....	8.75
US Small Co Dec 10	153.6	164.3	.....	0.00
Managed Dec 10	105.8	111.2	.....	3.56
Intl Bond Dec 10	117.7	124.0	.....	10.34
Japan Dec 10	68.50	73.30	.....	0.40
European Dec 10	83.53	89.45	.....	2.07

INSURANCES

OTHER UK UNIT TRUSTS

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N & P Life Assurance Ltd
6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	+ or -	Yield Gross
Life Managed Fd	103.3	108.7	.....	-
Pension Managed Fd.	101.0	106.3	.....	-
Life Deposit Fd	111.2	117.0	.....	-
Pension Deposit Fd	118.1	124.3	.....	-

For National Fin see Target Life

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or -	Yield Gross
Harvester Pension Funds				
Managed	162.6	171.2	+0.1	-
UK Equity	167.5	176.4	.....	-
Overseas Equity	129.3	136.2	-2.2	-
Fixed Interest	162.2	170.8	+7.4	-
Property	129.2	136.0	-1.2	-
Index Linked	151.6	159.6	+0.1	-
Deposit	165.1	173.8	+0.4	-
With Profits (B)	135.0	142.1	+0.2	-

National Provident Institution
48 Gracechurch St., London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	339.0	356.9	-1.5	-
UK Equity	422.1	444.4	-3.0	-
Overseas Eq.	322.4	339.4	-1.7	-
American	274.1	288.6	+1.3	-
Far East	341.0	359.0	-0.8	-
Property	193.9	204.2	-0.3	-
Fixed Int	273.6	288.1	+0.7	-
Indexed Gilt	161.1	169.6	-0.1	-
Deposit	188.5	198.5	.....	-
With Profit	105.6	111.1	.....	-
Pension Fund (Accum Units)				
Managed	490.7	516.6	-2.1	-
UK Equity	573.5	603.7	-3.9	-
Overseas Eq.	548.1	577.0	-1.5	-
American	352.2	370.8	+1.6	-
Far East	559.0	588.5	-3.2	-
Property	247.8	260.9	-0.1	-
Fixed Int	341.5	359.5	+0.8	-
Indexed Gilt	175.7	185.0	-0.2	-
Deposit	267.7	281.8	+0.1	-

[illegible]

Providence Capital Life Assc. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity Acc	208.4	219.9	-1.8	-
UK Fixed Int Acc	193.0	203.6	+0.8	-
Intl Equities Acc	164.2	173.3	-0.9	-
UK Managed Acc	165.1	174.1	-1.0	-
Property Acc	224.3	236.7	.....	-
Money Acc	134.3	141.7	+0.1	-
Special Market Acc	139.4	147.1	-0.1	-
Japan Equity Acc	91.4	96.5	-1.3	-
North American Acc	94.5	99.7	+0.1	-
Pacific Acc	88.6	93.5	-0.4	-
Technology Acc	114.5	120.8	-0.2	-
Nat Resources Acc	55.7	58.8	+0.4	-
European Acc	92.6	97.7	-2.1	-
Residential Prop Acc	90.6	95.6	.....	-
Swiss Equities Acc	30.9	32.6	-0.7	-
Hong Kong Acc	66.9	70.6	-0.1	-
UK High Inc Eq Acc	67.7	71.5	-0.3	-
Int Fixed Interest Acc	60.6	64.0	-0.1	-
Int Managed Acc	54.2	57.1	-0.2	-
HIP Managed Acc	111.2	117.2	-0.4	-
HIP Managed II Acc	96.9	102.2	.....	-
HIP Managed III Acc	105.3	111.0	-0.2	-
Total Investment Bond				
UK Equity Initial		141.3	-1.1	-
UK Fixed Int Initial		131.0	+0.5	-
Intl Equities Initial		110.7	-0.5	-
UK Managed Initial		112.1	-0.6	-
Property Initial		153.4	.....	-
Money Initial		91.6	+0.1	-
Special Market Initial		107.9	-0.1	-
Japan Equity Initial		70.8	-0.9	-
North American Initial		73.1	+0.1	-
Pacific Initial		68.6	-0.2	-
Technology Initial		88.6	-0.1	-
Nat Resources Initial		43.1	+0.3	-
European Initial		82.7	-1.8	-
Residential Prop Init		86.2	.....	-
Swiss Equities Initial		29.4	-0.6	-
Hong Kong Initial		63.7	-0.1	-
UK High Inc Eq Init		64.5	-0.3	-
Int Fixed Interest Init		58.5	.....	-
Int Managed Init		52.4	-0.2	-
HIP Managed Init		107.7	-0.3	-
HIP Managed II Initial		95.1	-0.1	-

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

CANADA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)

[illegible]

هكذا من الأصل

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	Bid Price	Offer Price	+ or -	Yield Gross
Baring International Fd Mngrs (Ireland) Ltd				
Australia	$15.94	16.74xd	-0.13	1.05
Japan Tech	$55.68	58.47	-1.02	-
Japan Trust	$23.89	25.09	-0.36	0.17
Japan New Gen Fd	$17.75	18.64	-0.30	-
Malay Sing	$53.76	56.39	-0.31	0.31
Nth American	$21.92	23.02	-0.11	0.58
Octopus Fund	$21.43	22.51xd	-0.19	0.88
Pacific Fd	$59.92	62.92xd	-0.87	-
International Bond	$17.21	18.08xd	-0.01	6.89
Europa Fund	$12.92	13.57xd	-0.16	-
British Screen Fd	£0.85	0.90xd	-0.01	-
Tristar Warrant	$10.74	11.28	-0.18	-
Hong Kong	$50.60	53.13xd	-0.28	3.09
Mngd Portfolio (Stlg)	£3.94	4.26	----	-
Mngd Portfolio (Dlr)	$10.07	10.64	-0.05	-
Currency Fd-Sterling	£39.76		----	-
Currency Fd-US Dollar	$35.50		+0.01	-
Curr Fd-Deutschemark	DM41.02		+0.03	-
Curr Fd-Managed $	$46.07	48.37	-0.01	-
Federated International Funds Plc				
Federated Short-term US Gov't Securities Fund				
Institutional Serv Series*	$1.00		----	4.47
Investment Series*	$1.00		----	4.37

* Annualised Yield

ISLE OF MAN (SIB RECOGNISED)

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Allied Dunbar Intl Fund Mgrs (1600)F						
Lord Street, Douglas, IoM 0624 661551						
ADI Managed(z)	5		0.5637	0.6003		1.37
ADI Mngd Currency(z)	5		0.4069	0.4289		5.34
ADI W'wide Eq(z)	5		0.6385	0.68		1.13
ADI Nth Amer Gwth(z)	5		0.7809	0.8516		0.01
ADI Far East (z)	5	$1.06	1.06	1.129		1.18
ADI Gilt & Income(z)	5		0.2904	0.3093		8.47

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
TSB Trust Funds—Contd.						
UK Equity	5	138.72	138.72	150.02	-0.28	0.92
International Equity	5	109.98	109.98	117.04	-0.31	0.00
Far Eastern	5	84.93	84.93	91.66	+0.34	0.00
European	5	76.85	76.85	81.33	-1.34	0.00
Pan American	5	148.84	148.84	157.77	+1.14	0.00
TSB Gilt Fund Ltd						
Quarterly Share	3	98.07	98.07	100.34	+0.23	10.16
Monthly Share	3	95.93	95.93xd	99.11	+0.23	10.39

JERSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Barclays Intl Funds				
Currency Funds				
Sterling	623.31		+0.01	9.5
US Dollar	$31.54			3.7
Deutschemark	DM56.45		+0.02	8.0
Yen	Y4,066		+0.002	5.0
Managed Multicurrency	£13.12	13.39	+0.04	-
Managed Multicurrency	$25.92	26.21		-
Bond Funds				
Sterling Bond	£0.408	0.424	+0.001	10.6
US Government Income	$99.52	103.06	+0.06	6.7
Asian Selection Funds				
Hong Kong	$12.831	13.506	-0.067	3.0
Indonesia	$7.625	8.026	-0.032	2.5
Korea	$9.617	10.123	-0.020	2.5
Malaysia	$9.540	10.042	-0.043	0.5
Philippines	$10.783	11.351	-0.029	2.5
Singapore	$11.274	11.867	-0.131	1.0
Thailand	$11.789	12.378	-0.321	2.5
South East Asia	$10.827	11.397	-0.138	3.0
US Dollar Liquidity	$9.981	10.060		3.4
Cater Allen Investment Management (CI)				
CA Gilt Income	£6.55	6.85	+0.09	7.52
CA Gilt & Futures	£1.025	1.077	----	7.43

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Interest rate speculation grows

THE DOLLAR gave up most of its early gains as worries about the Soviet Union were replaced by concern that US interest rates may be cut and German rates raised.

The dollar had begun firmly as the warning of impending political upheaval in the Soviet Union from the CIA director Mr Robert Gates unsettled the foreign exchanges.

The speculation that Mr Mikhail Gorbachev, the Soviet president, would resign following the signing of a pact creating a Commonwealth of Independent States added to the unease.

At one stage, the dollar was trading as high as DM1.5920 from DM1.5765 at the previous close. But as the session wore on, the talk that the Federal Reserve is about to cut the discount rate by ½ point to 4 per cent forced the dollar back. It closed unchanged at DM1.5765.

The first warning that the Federal Reserve may about to cut interest rates came last week when it lowered its target for Federal funds - the US overnight money rate - to 4½ per cent from 4¾ per cent.

It is widely assumed that the weakness in the US economy has forced the Federal Reserve's hand and it is this which has unsettled currency dealers, who fear that more rate cuts may be just around the corner.

The release of the November producer prices and retail sales figures today are expected to underline the fears of a "double dip" recession and could be opportunity for a cut in the discount rate.

Other analysts say the Federal Reserve may wait until its policy setting open market committee meeting on Tuesday.

The dollar was also helped by early weakness in the D-Mark. The mark had been boosted during the Maastricht summit as the currency market attached a premium to the German currency in case the talks collapsed.

So the mark fell back on the news that a deal had been struck at the summit. The worries about the Soviet Union also caused some early selling of marks.

However, there was a recovery later in the day as speculation started to grow that the Bundesbank could raise rates at its council meeting next week. The mark moved up to become the second strongest currency inside the ERM from fourth strongest the previous day.

Sterling made early gains as buyers came into the market following the announcement of an agreement at Maastricht. It rose to DM2.8660 from DM2.8500, before settling at DM2.8525.

There were also some suggestions that with Maastricht out of the way there may be more room for a cut in UK interest rates - three months money fell 1/16 to 10 13/16-11/16 per cent.

But the domestic money markets are still some way from discounting a cut in interest rates and sterling's retreat during the afternoon underlined its continuing vulnerability to speculation on German interest rates.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Dec 11	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	130.024	-2.71	5.07	47
Belgian Franc	42.4032	41.9999	-0.95	3.21	41
D-Mark	2.05586	2.03815	-0.86	3.12	48
Dutch Guilder	2.31643	2.29655	-0.86	3.11	37
Irish Punt	0.767417	0.764618	-0.36	2.60	12
Italian Lira	1538.24	1538.49	0.02	2.21	-6
French Franc	6.89509	6.95863	0.92	1.29	-56
Danish Krone	7.84195	7.92936	1.11	1.10	-55
Sterling	0.696904	0.712412	2.23	0.00	-44

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
Adjustment calculated by Financial Times.

£ IN NEW YORK

Dec 11	Latest	Previous Close
£ Spot	1.8085-1.8095	1.8055-1.8065
1 month	0.89-0.87pm	0.92-0.91pm
3 months	2.66-2.64pm	2.69-2.66pm
12 months	9.90-9.80pm	9.99-9.92pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

OTHER CURRENCIES

Korea(Sth)	1357.20 - 1379.05	752.00 - 761.00
Kuwait	0.51300 - 0.51800	0.28600 - 0.28630
Luxembourg	58.85 - 58.95	32.50 - 32.60
Malaysia	4.9500 - 4.9585	2.7460 - 2.7480
Mexico	5484.15 - 5480.80	3040.00 - 3042.00
N.Zealand	3.2580 - 3.2615	1.8020 - 1.8040
Saudi Ar.	6.7105 - 6.7870	3.7495 - 3.7505
Singapore	2.9840 - 2.9915	1.6520 - 1.6540
S.Af (Cm)	5.0105 - 5.0220	2.7720 - 2.7770
S.Af (Fn)	5.6940 - 5.7895	3.1495 - 3.2000
Taiwan	46.45 - 46.55	25.70 - 25.75
U.A.E.	6.5720 - 6.6490	3.6715 - 3.6735

*Official rate. Floating rate £-2575.0 $-1420.0

POUND SPOT - FORWARD AGAINST THE POUND

Dec 11	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7965 - 1.8105	1.8095 - 1.8105	0.88-0.86cpm	5.77	2.64-2.61pm	5.80
Canada	2.0450 - 2.0655	2.0645 - 2.0655	0.60-0.51cpm	3.23	1.72-1.60pm	3.22
Netherlands	3.2100 - 3.2305	3.2100 - 3.2200	¼-⅛cpm	0.70	¾-½pm	0.78
Belgium	58.75 - 59.15	58.85 - 58.95	6-1cpm	0.71	16-11pm	0.92

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

Dec 11	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	10¼ - 10⅛	10¾ - 10⅝	10¾ - 10⅝	10⅞ - 10 11/16	10⅝ - 10½	10⅝ - 10½
US Dollar	4½ - 4⅜	4⅝ - 4½	4 11/16 - 4 9/16	4⅝ - 4½	4½ - 4⅜	4⅝ - 4½
Can. Dollar	7¼ - 6¾	7¼ - 6¾	7⅛ - 6 15/16	7⅛ - 6 15/16	7⅛ - 6 15/16	7⅛ - 6 15/16
Dutch Guilder	9½ - 8½	9¾ - 9½	9¾ - 9½	9⅞ - 9¾	9¾ - 9⅝	9⅝ - 9½
Swiss Franc	8¾ - 7¾	8 - 7¾	8¼ - 8⅛	8⅛ - 8	8⅛ - 7⅞	7⅞ - 7¾
D-Mark	9⅛ - 8⅞	9⅛ - 9	9¼ - 9⅛	9⅝ - 9½	9⅝ - 9½	9⅝ - 9½
French Franc	10⅛ - 9⅞	10⅛ - 9⅞	10⅛ - 9⅞	10 - 9¾	9⅞ - 9⅝	9⅞ - 9⅝
Italian Lira	12 - 10	12 - 11½	12½ - 12	12¼ - 11¾	12¼ - 11¾	12⅛ - 11⅝
Belgian Franc	9⅞ - 9⅝	9¾ - 9½	9⅞ - 9¾	9⅞ - 9¾	9¾ - 9½	9¾ - 9½
Yen	6⅜ - 6¼	6⅜ - 6¼	6⅜ - 6¼	6⅛ - 6	5⅞ - 5⅝	5⅞ - 5⅝
Danish Krone	9⅛ - 8⅞	9¼ - 9	9½ - 9¼	9⅞ - 9⅝	9⅞ - 9⅝	9¾ - 9½
Asian $Sing	2 - 1¾	2¼ - 2	2⅜ - 2¼	2 13/16 - 2 11/16	3⅛ - 2⅞	3½ - 3⅜

Long term Eurodollars: two years 5⅜-5¼ per cent; three years 5¾-5⅝ per cent; four years 6⅛-6 per cent; five years 6⅜-6¼ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Dec.11	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Ecu
£	1	1.810	2.853	233.8	9.743	2.520	3.215	2154	2.065	58.90	1.401
$	0.552	1	1.576	129.2	5.383	1.392	1.776	1190	1.141	32.54	0.774
DM	0.351	0.634	1	81.95	3.415	0.883	1.127	755.0	0.724	20.64	0.491
YEN	4.277	7.742	12.20	1000.	41.67	10.78	13.75	9213	8.832	251.9	5.992
F Fr.	1.026	1.858	2.928	240.0	10.	2.586	3.300	2211	2.119	60.45	1.438
S Fr.	0.397	0.718	1.132	92.78	3.866	1	1.276	854.8	0.819	23.37	0.556
N Fl.	0.311	0.563	0.887	72.72	3.030	0.784	1	670.0	0.642	18.32	0.436
Lira	0.464	0.840	1.325	108.5	4.523	1.170	1.493	1000.	0.959	27.34	0.650
C$	0.484	0.877	1.382	113.2	4.718	1.220	1.557	1043	1	28.52	0.678
B Fr.	1.698	3.073	4.844	396.9	16.54	4.278	5.458	3657	3.506	100.	2.379
Ecu	0.714	1.292	2.036	166.9	6.954	1.799	2.295	1537	1.474	42.04	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

THREE MONTH EURO SWISS FRANC
SFR 1m points of 100%

	Close	High	Low	Prev.
Dec	91.80	91.81	91.78	91.82
Mar	92.18	92.22	92.15	92.18
Jun	92.48	92.51	92.46	92.48
Sep	92.67	92.65	92.60	92.67

Estimated volume 2022 (2313)
Previous day's open int. 23085 (23761)

FT-SE 100 INDEX *
£25 per full index point

	Close	High	Low	Prev.
Dec	2380.0	2413.0	2370.0	2395.0
Mar	2411.0	2445.0	2406.0	2426.0
Jun	2441.0	2465.0	2454.0	2456.0

Estimated volume 8534 (12078)
Previous day's open int. 40489 (40692)

FT-SE EUROTRACK 100 INDEX
DM50 per full index point

	Close	High	Low	Prev.
Dec	1038.0	1036.0	1036.0	1043.0
Mar	1060.0			1065.0

Estimated volume 33 (0)
Previous day's open int. 305 (305)

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.8100	1.8013	1.7838	1.7578	1.7124

Open int. 132,942 11,294 50 85,028 11,885 100
Estimated volume 34,566 Total Open interest 241,299

BASE LENDING RATES

	%		%		%
Adam & Company	10.5	Credit Lyonnais	10.5	McDonnell Douglas Bank	10.5
Allied Trust Bank	10.5	Cyprus Popular Bk	10.5	Midland Bank	10.5
AIB Bank	10.5	Dunbar Bank PLC	10.5	Mount Banking	10.5
● Henry Ansbacher	10.5	Duncan Lawrie	10.5	NatWestminster	10.5
B & C Merchant Bank	10.5	Equatorial Bank plc	10.5	Northern Bank Ltd	10.5
Bank of Baroda	10.5	Exeter Bank Limited	11	Nykredit Mortgage Bank	11
Banco Bilbao Vizcaya	10.5	Financial & Gen. Bank	11	Provincial Bank PLC	14
Bank of Cyprus	10.5	First National Bank Plc	14	Roxburghe Bank Ltd	11.5
Bank of Ireland	10.5	● Robert Fleming & Co.	10.5	Royal Bk of Scotland	10.5
Bank of India	10.5	Robert Fraser & Ptnrs.	11	● Smith & Williamson Secs.	10.5
Bank of Scotland	10.5	Girobank	10.5	Standard Chartered	10.5
Banque Belge Ltd	10.5	● Guinness Mahon	10.5	TSB	10.5
Barclays Bank	10.5	● Hambros Bank	10.5	Unibank plc	10.5
Benchmark Bank	11	Hampshire Trust Plc	13.5	● United Bk of Kuwait	10.5
Brit Bk of Mid East	10.5	Heritable & Gen Inv Bnk	10.5	Unity Trust Bank Plc	10.5
● Brown Shipley	10.5	● Hill Samuel	10.5	Western Trust	10.5
CL Bank Nederland	10.5	C. Hoare & Co.	10.5	Westpac Bank Corp.	10.5
Citibank NA	10.5	Hongkong & Shanghai	10.5	Whiteaway Laidlaw	10.5
City Merchants Bank	10.5	Julian Hodge Bank	10.5	Yorkshire Bank	10.5
Clydesdale Bank	10.5	● Leopold Joseph & Sons	10.5	● Members of British Merchant Banking & Securities Houses Association.	
Co-operative Bank	10.5	Lloyds Bank	10.5		
Coutts & Co	10.5	Meghraj Bank Ltd	10.5		

MONEY MARKETS

Easier on EC deal

THE MONEY market pressures on some of the weaker ERM currencies eased yesterday after the EC reached an agreement at the Maastricht Summit and as the D-Mark initially weakened on worries about the Soviet Union.

Sterling interest rates were lower as buyers of the pound against the D-Mark emerged following the news that a deal had been struck at Maastricht.

There had been fears in the market that the UK's disagreements could lead to the talks collapsing and that the standing of Mr John Major, the prime minister, would be harmed.

The markets are still not anticipating any change in UK base rates - currently at 10½ per cent. But the stability of sterling and the agreement at Maastricht led to some speculation that the government could yet move on rates.

The key three months inter-bank rate was down 1/16 point at 10 31/32-19/32 per cent; six months money was off 1/16 at 10⅝-½; and was also down 1/16 at 10⅝-½ per cent.

In the short term money market, the Bank of England forecast a large money market shortage of £1.2bn. This was later revised to £1.15bn.

The unwinding of recent large Treasury and bank bill purchases by the Bank of England was the main factor causing the shortage. The market's liquidity needs were met with a total of £1.14bn of assistance. With the market left only £10m short rates were able to end little changed on the day at 10¾ per cent.

In the interest rate futures market, the March short sterling contract rose 10 points to 89.72 in brisk trading.

French interest rates were also easier, particularly in the futures market, as the franc rallied against the mark. The three months Paris inter-bank March contract was up 5 points at 90.47.

The downward pressure on French rates also came from an injection of liquidity by the Bank of France at its latest securities repurchase tender. The Bank injected FFr9.4bn and left its intervention rate unchanged at 9¼ per cent.

Call money eased in Germany to 9.05-9.10 per cent from 9.10-9.15 per cent after the Bundesbank added DM3.6bn in its latest securities repurchase tender.

The Bundesbank's addition of liquidity is seen as a response to end of the year factors which drain cash from the banking system, such as tax payments.

UK clearing bank base lending rate 10.5 per cent from September 4, 1991

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.11) 3 months US dollars		6 months US Dollars	
bid 4 7/16	offer 4 9/16	bid 4⅜	offer 4½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Lunchtime

Prime rate	7½
Broker loan rate	6¼
Fed.funds	4½
Fed.funds at intervention	4½

Dec.11	Overnight	One Month	Two Months
Frankfurt	9.05-9.15	9.30-9.50	9.30-9.50
Paris	10¼-10⅛	10-10⅛	9⅞-10⅛
Zurich	6⅞-6⅝	8⅛-8⅞	-
Amsterdam	9.43-9.56	9.60-9.70	-
Tokyo	6 11/16-6 9/16	6⅞-6¾	-
Milan	11¾-12¼	12 11/16-13	-
Brussels	9.19-9.31	9⅛-9¼	-
Dublin	9¾-10	10⅜-10⅛	10⅜-10⅛

LONDON MONEY RATES

Dec 11	Overnight	7 days notice	One Month
Interbank Offer	11¼	10¾	10¾
Interbank Bid	10¾	10½	10⅝
Sterling CDs	-	-	10¾
Local Authority Deps.	10½	10½	10⅝
Local Authority Bonds	-	-	-
Discount Mkt Deps	10¾	10⅝	-
Company Deposits	-	-	10 13/16
Finance House Deposits	-	-	10 13/16
Treasury Bills (Buy)	-	-	10⅜
Bank Bills (Buy)	-	-	10⅜
Fine Trade Bills (Buy)	-	-	-
Dollar CDs	-	-	4.90
SDR Linked Dep. Offer	-	-	6⅛
SDR Linked Dep. Bid	-	-	6⅛
ECU Linked Dep. Offer	-	-	10⅝
ECU Linked Dep. Bid	-	-	10⅜

Treasury Bills (sell); one-month 10 5/16 per cent; three months ... per cent; Bank Bills (sell): one-month 10¼ per cent; three months ... Average tender rate of discount 10.0850 p.c. ECGD Fixed Rate ... day November 29, 1991. Agreed rates for period Dec.25, 1... 11.74 p.c. Schemes II & III: 11.75 p.c. Reference rate for p... 29, 1991, Scheme IV&V: 10.513 p.c. Local Authority and ... others seven days' Fixed. Finance Houses Base Rate 11 from ... Rates for sums at seven days notice 4 per cent. Certificates ... £100,000 and over held under one month 7 per cent; one-... months 9 per cent; six-nine months 9 per cent; nine-twelve ... per cent from Sept 5,1991, Deposits withdrawn for cash ...

MONEY MARKET FUNDS

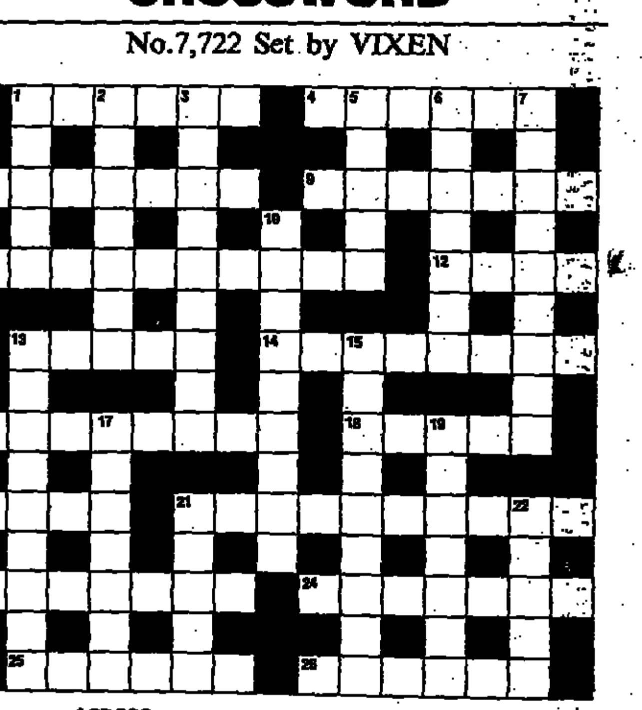
Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

No.7,722 Set by VIXEN



ACROSS
1 1 down organised the church dance (6)
4 Burden the family (6)
8 Far from pugnacious in the main (7)
9 Urge to hold a supporter back? Rubbish! (7)
11 Regard one's developed for a lovely area (4-6)
12 A child's sums (4)
13 Some of this may well vex Trades Union officials further (5)
14 Finished up accepting alternative point as warranted (8)
16 The person living in dilapidated building is tender (8)
18 He'll make some signal to equivocate (5)
20 A complaint for all to see in maturity (4)
21 To lead on is wrong - causes great distress (10)
23 A break to take a course (7)
24 An excavator occasioning a certain irritation in the German (7)
25 Inclined to agree (6)
26 Allowed time, and dealt with the business in hand (6)

DOWN
1 Cockney Joanna is so quiet! (6)
2 A worker consuming fruit for sustenance (7)
3 Showing backbone about a contest, get cups perhaps (9)
5 Transport to school (5)
6 The judge of a tribe could be right (7)
7 Bedclothes (9)
10 Publicly declare dive rates demolition (9)
13 Browning? No, and that appears vital always (9)
15 Pegging nothing inside the home (9)
17 Having suffered breakdown, can idle in the country (7)
19 Church authority in the forefront at one hundred (7)
21 Doctor copy to provide cover-up (5)
22 Foreign character taking part in some game or other (5)

Solution to Puzzle No.7,721

S	T	R	I	D	E		B	A	T	H	P	L	U	G

STRIDE BATHPLUG / MEDAWAR ROBESON / TURN FAMILYTREE / MUDDLE THROUGH / PEASANT OSSIFY / CONSPIRACY FLAT / RIGGING ANAEMIC / ENTITLED LENTIL

WORLD STOCK MARKETS

CANADA

TORONTO

3:00 pm prices December 11

MONTREAL

3:00 pm prices December 11

Sales	Stock	High	Low	Close	Chng
42000	DominTxt A	$7⅞	7½	7½	−⅛
600	MacleanHnt	$10½	10½	10½	
110200	NatBk Can	$11¼	11	11¼	+⅛
1000	Provigo x	$9½	9½	9½	−¼
9600	Quebecor A	$19⅝	19⅝	19⅝	−⅛
55200	Teleglobe x	$10¾	10½	10¾	
13100	Videotron	$14⅞	14⅞	14⅞	

Total Sales 10,173,300 shares

INDICES

NEW YORK

DOW JONES	Dec 10	Dec 9	Dec 6	Dec 5	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
φIndustrials	2863.82	2871.65	2886.40	2889.09	3077.15 (18/10)	2470.30 (9/1)	3077.15 (18/10/91)	41.22 (2/7/32)
Home Bonds	97.79	97.82	97.85	97.72	97.92 (12/11)	91.30 (16/1)	97.92 (12/11/91)	54.99 (1/10/81)
Transport	1171.90	1184.42	1198.62	1203.85	1287.56 (18/10)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	219.70	220.77	221.14	218.77	221.64 (2/12)	195.17 (10/7)	236.23 (2/1/90)	10.50 (8/4/32)

φDay's High 2891.10 (2913.46) Low 2841.23 (2856.22)

STANDARD AND POOR'S	Dec 10	Dec 9	Dec 6	Dec 5	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	377.90	378.26	379.10	377.39	397.41 (13/11)	311.49 (9/1)	397.41 (13/11/91)	4.40 (1/6/32)
Industrials	444.88	445.36	446.75	444.90	472.01 (29/8)	364.90 (9/1)	472.01 (29/8/91)	3.62 (21/6/32)
Financial	30.15	30.15	30.02	29.90	32.54 (13/11)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	208.86	209.21	209.74	208.96	219.37 (13/11)	170.97 (9/1)	219.37 (13/11/91)	4.46 (25/4/42)
Amex Mkt. Value	368.17	370.59	372.63	371.80	392.37 (12/11)	296.72 (14/1)	397.03 (18/10/89)	29.31 (9/12/72)
NASDAQ Composite	534.23	535.35	536.30	534.03	556.17 (13/11)	355.75 (14/1)	556.17 (13/11/91)	54.87 (31/10/72)

	Dec 6	Nov 29	Nov 22	year ago (approx.)
Dow Industrial Div. Yield	3.17	3.15	3.15	3.98

	Dec 4	Nov 27	Nov 20	year ago (approx.)
S & P Industrial div. yield	2.80	2.82	2.80	3.42
S & P Indl. P/E ratio	22.98	22.78	22.79	15.37

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
IBM	5,001,500	86⅛	+ 1⅛
RJR Nabisco	4,420,100	10⅝	+ ⅛
Natl Conv	4,087,800	⅛	- ⅛
Deere	2,418,500	43	- 4⅛
Glaxo	2,270,700	29⅛	- ⅛
Gen Motors	2,133,100	28½	+ ⅞
USX-Marathon	2,030,700	23⅛	- ½
Philip Morris	1,719,200	68⅞	+ ⅞
Am T & T	1,527,400	37⅞	+ ⅛
Service Corp	1,387,000	22⅞	- ⅛

TRADING ACTIVITY

† Volume (Millions)	Dec 10	Dec 9	Dec 6
New York SE	191.810	174.700	198.170
Amex	16.191	13.525	16.826
NASDAQ	157.622	155.387	171.831
NYSE			
Issues Traded	2,187	2,163	2,164
Rises	633	696	853
Falls	1,030	946	769
Unchanged	524	521	542
New Highs	60	66	71
New Lows	96	77	72

CANADA

TORONTO	Dec 10	Dec 9	Dec 6	Dec 5	1991 HIGH	1991 LOW
Metals & Minerals	2748.75	2750.17	2796.48	2781.30	3299.99 (18/7)	2632.06 (9/1)
Composite	3374.70	3382.89	3426.53	3426.63	3604.09 (12/11)	3161.95 (15/1)
MONTREAL Portfolio	1789.08	1790.44	1817.78	1815.84	1907.35 (12/11)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec 11	Dec 10	Dec 9	Dec 6	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1564.6	1571.5	1580.7	1583.8	1696.3 (8/11)	1204.5 (16/1)
All Mining (1/1/80)	622.6	628.8	629.4	627.9	787.2 (24/7)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	379.48	382.71	388.77	396.43	534.81 (16/4)	379.48 (11/12)
BELGIUM						
BEL20 (1/1/91)	1061.52	1058.46	(c)	1066.14	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	347.68	348.42	349.73	350.49	380.04 (2/8)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	776.7	797.4	801.4	(c)	1116.9 (8/4)	776.7 (11/12)
FRANCE						
CAC General (31/12/82)	450.05	455.44	459.52	467.01	503.51 (15/11)	394.88 (15/1)
CAC 40 (31/12/87)	1645.56	1636.93	1663.37	1685.72	1887.29 (1/10)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	628.22	633.13	638.77	638.02	717.43 (17/6)	570.48 (15/1)
Commerzbank (1/12/53)	1773.90	1788.80	1804.60	1801.80	2036.2 (31/5)	1612.5 (15/1)
DAX (30/12/87)	1543.59	1551.11	1559.05	1558.18	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	4097.23	4128.32	4203.20	4190.84	4271.34 (15/11)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1351.34	1339.85	1344.60	1337.99	1520.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Com. Ital. (1972)	487.87	482.89	487.23	494.65	619.38 (3/6)	482.89 (10/12)
JAPAN						
Nikkei (16/5/49)	21502.90	21953.06	22352.88	22445.06	27146.91 (18/3)	21456.76 (19/8)
Tokyo SE (Topix) (4/1/68)	1666.70	1685.83	1702.43	1706.15	2028.85 (18/3)	1625.00 (17/1)
2nd Section (4/1/68)	2466.62	2485.68	2489.49	2498.02	3423.45 (10/5)	2466.62 (11/12)
MALAYSIA						
KLSE Composite (4/4/86)	530.90	531.75	551.42	530.33	635.02 (29/5)	470.41 (16/1)
NETHERLANDS						
CBS Tot.Rtn.Gen.(End 1983)	267.5	269.1	269.9	269.5	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	187.9	189.0	189.5	189.3	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	643.84	647.08	650.72	634.62	793.53 (26/8)	595.77 (2/12)
PHILIPPINES						
Manila Comp (2/1/85)	1129.08	1143.13	1111.42	1102.45	1183.40 (29/5)	582.64 (10/1)
SINGAPORE						
SES All-Singapore (2/4/75)	382.09	388.83	388.95	389.31	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1256.0	1290.0	1287.0	1239.0	1469.0 (5/7)	971.0 (25/2)
JSE Industrial (28/9/78)	4156.0	4172.0	4172.0	4158.0	4364.0 (13/11)	2829.0 (16/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	641.15	638.76	615.70	635.17	763.10 (6/8)	590.57 (22/6)
SPAIN						
Madrid SE (30/12/85)	237.96	248.91	(c)	(c)	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	902.60	910.10	912.60	926.40	1149.8 (11/7)	808.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	(u)	718.7	713.1	710.8	769.3 (14/11)	598.4 (14/1)
SBC General (1/4/87)	(u)	578.5	581.3	580.1	638.0 (31/5)	487.1 (14/1)
TAIWAN**						
Weighted Price (30/6/66)	4401.79	4455.76	4473.82	4378.13	6305.22 (9/5)	3316.26 (15/1)
THAILAND						
Bangkok SET (30/4/75)	695.10	(c)	701.51	687.39	908.13 (19/8)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) (§)	494.5*	498.1	501.7	502.3	529.2 (17/4)	439.1 (16/1)

**Saturday December 7: Taiwan Weighted Price 4501.90; Korea Comp Ex. 619.88.
‡ Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday 11 December 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Toyo Ink	9.0	903	+100	Hitachi	3.3	901	-3
Osaka Gas	8.2	600	-3	Chugoku Marine	3.1	1,090	+60
Meiji Milk Prod	7.0	1,030	+33	Matushita	2.9	1,400	+10
Okamoto	6.6	1,060	+30	Toshiba	2.6	615	+5
Nippon Steel	4.6	363	-7	Meiji Seika	2.4	945	+46

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

3:00 pm prices December 11

1991 High	1991 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16¾	9¼	AAR Corp	0.48	4.2	15	251	11¾	11½	11½	-½
22⅞	14½	A L Labs A	0.16	0.7	24	210	22¼	21¼	21⅝	+⅛
55¾	40⅞	AMP Inc	1.44	2.7	21	851	53⅜	52⅞	53¼	+¼
68⅝	44⅞	AMR			11	1819	58⅞	58½	58⅞	-⅛
2⅝	1	ARX			1	42	1⅛	d1	1	-⅛
56	41½	ASA	3.00	6.1	14	744	49⅝	48¾	49⅜	-⅝
61⅛	39¼	Abbott Lab	1.00	1.7	23	4382	59⅞	59½	59	-⅛
14⅝	9⅞	Abitibi Pr	0.44	3.3	18	71	13½	13⅜	13⅞	-⅛
11⅝	10⅜	ACM Gvt In x	1.28	11.4		303	11	10⅞	11	
9¾	8⅝	ACM GvOpp x	1.01	10.6		74	9⅝	9½	9½	
9½	8¼	ACM Gvt Sp x	1.01	11.1		385	9¼	9⅛	9⅛	
11	9⅞	ACM Gvt Se	1.28	11.8		385	10⅝	10½	10⅝	+⅛
9	7⅝	ACM Man	1.08	12.4		152	8¾	8⅝	8¾	
12⅞	11½	ACM Managd x	1.35	10.9		130	12⅜	12¼	12⅜	+⅛
7½	4¾	Acme Cleve	0.40	8.8	13	10	5⅞	5⅞	5⅞	-⅛
8	3⅞	Acme Elect			3	18	4⅞	4¾	4¾	
40	22¾	Acuson			17	2902	26½	25¾	26½	+¾
20¼	14¼	Adams Expr	1.63	9.1	0	79	17⅞	17¾	17⅞	-⅛
20⅛	17½	Adobe12Pf	2.40	16.0		420	16½	d15	15	-3⅞
9¼	5½	Adobe Res			5	11112	6	d5⅛	5⅛	-1⅛
38⅞	19	Ad Micro				93	38¼	37¾	37¾	-⅛
15¼	4⅞	Ad Micro P	3.00	20.0	74	8132	15⅛	14¾	15	+⅛
6⅛	2¼	Advest Grp	0.16	3.8	6	82	4¼	4⅛	4⅛	-⅛
49⅛	31⅞	Aetna Lf x	2.76	7.1	7	1945	38⅝	38¼	38½	+⅛
10⅝	6⅝	Affil A x	0.24	3.0	73	1025	8¼	8⅛	8⅛	
20⅞	12	Ahmanson	0.88	6.1	9	741	14⅞	14½	14½	-¼
19⅞	2⅞	Aileen Inc			18	197	u19⅞	18⅝	18¾	-½
74⅛	51⅜	Air Pr Chm x	1.56	2.3	15	663	68⅞	68⅝	68⅝	-1
30	16⅝	Airbne Frt	0.30	1.5	14	133	20¾	20¼	20⅞	-⅛
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NYSE COMPOSITE PRICES

Continued from previous page

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1991 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Prev. Close	Chg
25¼	14⅛	Xtra 1.94				6	23⅜	23⅛	23⅛		
29¾	14¼	Xtra Corp	0.72	2.7	13	111	27	27	27		
27⅜	21¼	Yankee Egy x	1.60	6.2	12	9	25⅝	25⅝	25⅝		
1½	⅝	Zapata			49	362	⅝	d½	½		−1/16
9⅜	6¼	ZenithElec			2	143	7⅛	6⅞	7		
18½	12	Zenith Nat x	1.00	6.8	122	4	14¾	14¾	14¾		
8⅝	4½	Zenix Inc x	0.84	13.7		49	6¼	6⅛	6⅛		−⅛
16⅛	10¼	Zero Corp	0.40	3.8	13	274	10½	10⅜	10½		
41⅜	29½	Zurn Ind x	0.88	2.9	12	257	31¼	30⅛	30⅝		−1¼
13½	10¼	Zweig Fund	1.16	9.3		210	12¾	12½	12½		−⅛
10½	8½	Zweig Tot x	0.96	9.5		301	10⅛	10⅛	10⅛		−⅛

Price data supplied by Telekurs.

Owing to problems at Telekurs, some North American prices are temporarily being marked as xd early.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3:00 pm prices December 11

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Oldi Corp	0.14	8	134	7⅞	7⅝	7¾	+⅛
Pall Corp	0.44	25	1659	34½	34	34⅜	+⅜
Pegasus G		7	310	12⅞	12⅝	12⅝	−⅜
Perini		6	z100	9½	9½	9⅝	
Pit HBP x	0.31	7	22	10¾	10½	10½	−⅛

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NASDAQ NATIONAL MARKET

3:00 pm prices December 11

[illegible]

AMERICA

Overseas losses pull Dow lower for seventh session

Wall Street

EQUITIES failed to hold their ground for the seventh consecutive day yesterday, increasingly troubled by the weak state of the economy and worried by losses on overseas equity markets, *writes Patrick Harverson in New York.*

By 1 pm the Dow Jones Industrial Average was down 17.89 at 2,845.93, having fallen steadily throughout the morning. The more broadly based Standard & Poor's 500 was also markedly weaker, down 2.39 at 375.51, while the Nasdaq composite of over-the-counter stocks posted an even sharper decline, dropping 4.32 to 529.91. NYSE turnover was heavy at 131m shares, and declines outnumbered advances by more than two to one.

Overnight declines in Tokyo, London and Frankfurt provided a gloomy background. In the absence of fresh domestic economic news, investors have been testing the market's resilience, seeking a firm floor for share prices. That floor appeared to have been 2,850 on the Dow, but that barrier gave way just before midday. The fact that the losses held at just below 2,850, however, suggested that there was support for stocks near that level.

Among individual stocks, a rare gain was posted by National Semiconductor, which rose $½, or 9 per cent, to $6 on an increase in fiscal second quarter earnings from 1 cent to 3 cents a share. The stock was also lifted by an encouraging report from the semiconductor industry, which showed that the book-to-bill ratio rose to 1.0 in November from 0.96 in October, an indication of recovering demand for computer chips.

Tuesday's news of poor fourth quarter earnings at Deere & Co continued to undermine the stock. Shares in the agricultural equipment manufacturer slid another $2⅞ to $40⅝ in ½m shares.

Nucor slumped $4⅞ to $71⅛ on unconfirmed reports that Morgan Stanley had downgraded the stock. At one stage the selling pressure triggered a halt in trading.

Borland International was again a feature on the over-the-counter market, the stock falling another $5 to $70 in turnover of 1m shares. Although the earnings outlook for the company is good, investors have been taking profits after Borland's gains this year.

Yesterday an analyst at Donaldson Lufkin & Jenrette downgraded his rating on Borland from "moderately attractive" to "neutral". A report that nine Borland insiders sold shares last month may also have contributed to the decline.

National HMO, the medical services management group, rose $⅝ to $4⅞ on news of a 43 per cent improvement in fiscal first quarter earnings.

Vitesse Semiconductor made a strong debut. The 3.2m shares were priced at $9 each, and by early afternoon had risen to $10 in active trading.

Canada

TORONTO STOCKS tumbled for the seventh consecutive session on continued nervousness over the North American economies, the sharp sell-off overnight in Tokyo, and the political problems in the Soviet Union. By midsession, the composite index was down 28.6 at 3,346.1.

Volume was light at 13.7m shares, with total transactions valued at C$158m. Declining issues led advances 327 to 151.

Among active shares, Viceroy fell 20 cents to C$4.35, Fort Knox eased 23 cents to C$1.15, Encor was flat at 31 cents and Rogers Communications class B rose C$⅛ to C$13⅝.

Food majors move from defence to attack

Analysts say that the industry's prospects rate a reappraisal, writes William Cochrane

DEFENSIVE stocks have come up for consideration a number of times in 1991, which started nervously for European equities in the approach to the Gulf war, had a small panic attack in mid-year, and which has become increasingly depressed since early in September.

The longer this lasts, ironically, the more likely it is that strategists will look for another story, and defensive qualities will lose some of their appeal. However, as Christmas approaches, there is an argument that the three European food majors, Nestlé, of Switzerland, Unilever, of the Netherlands, and BSN, of France, are worth exploring on more positive grounds.

In share price terms, all three are at the high end of their 1991 trading range. Barclays de Zoete Wedd estimates that the trio will achieve double-digit earnings per share growth or better on average over the next five years, "a performance which we estimate will be superior to total corporate earnings growth".

In a recent research note, Mr John Parker, food industry analyst at BZW, says that opportunities for the industry exist in the emergence of the single European market, the opening up of eastern Europe, development of sales in Asia and Latin America, and in the steady increase of added value in food as consumers look for better quality and greater convenience.

He likes Nestlé which, he says, has the highest organic volume growth rate, good cash flow and a rising pay-out ratio; and Nestlé shares have been left behind by the other two in the last few months.

Unilever is also a growth story. It looks set to provide the best return over the period to 1995, thanks to a significant improvement in margins in Europe and North America, which together account for more than 80 per cent of earnings. The broker forecasts that margins on rising sales will rise from 7 to 10 per cent in North America, and from 9 to 10 per cent or more in Europe.

BSN is characterised as a higher risk/reward play. It continues to outpace the other two in earnings growth and its strong free cash flow offers the prospect of growth through acquisition, but its share price performance discounts more.

BZW has forecast volumes, margins, cash flow and dividends for the three companies through to 1995 and calculated a total return (capital increase and dividends received and reinvested) on the original investment for each stock (see table).

Given that the earnings growth projections are similar, the dividend yields low, and the assumption that share prices rise in line with earnings, it is not surprising that the total returns come out virtually the same.

"On the basis of these figures," says BZW, "the investment strategy should be to buy the cheapest stocks in the expectation that ratings will tend to converge as growth rates converge." On this score, BSN looks expensive with a high p/e and a low dividend yield. But in terms of cash flow per share, increasingly favoured by analysts given differing methods of accounting for depreciation, the French company looks cheaper than Unilever. The apparent solution to this problem is Nestlé, cheap on both the cash flow and earnings bases.

There are a couple of wrinkles, brought out in a note on Nestlé by Merrill Lynch, Wall Street's biggest securities house. Merrill has reduced its earnings estimates for Nestlé by about 2 per cent for the current year and by 1.3 per cent for 1992, blaming "a negative and unexpected pension adjustment for 1991" and the recently weakening US dollar.

Nestlé has indicated that, because inflation has been abnormally high in Switzerland, it is likely to take a charge in 1991 related to the employees' pension fund; Merrill estimates this charge at about SFr40m ($29m). The brokers also note that if the US dollar is weaker during the month of December than its average level during the year, this will have a negative effect on Nestlé's profits.

However, Merrill, too, still likes the company. "Despite our estimated cut the shares still represent value, in our opinion, as they are among the cheapest in our group."

European food companies

	Projected average EPS growth p.a. %	Projected total return to 1995 %	Price	P/E 1991	EPS growth 1991	EPS growth 1992	Yield % 1991	Price/cash flow per share 1991
Unilever NV	10.9	74	Fl 172.6	12.8	4.7	7.4	3.1	9.0
BSN	11.4	69	FFr934	*14.6	*16.4	*12.5	1.6	7.9
Nestlé (bearer)	10.6	68	SFr8,410	12.2	12.0	11.0	2.7	7.2

Source: Barclays de Zoete Wedd Research; *BSN estimates undiluted.

ASIA PACIFIC

Nikkei closes 1.8% down after falling to year's low

Tokyo

ARBITRAGE-related selling drove the Nikkei average to a new intra-day low for the year yesterday. It recovered substantially, but still closed with a fall of 1.8 per cent, *writes Emiko Terazono in Tokyo.*

After opening at the day's high of 21,900.72, the Nikkei dropped 3.8 per cent to the day's low of 21,123.90 in the afternoon, finally closing 450.16 down at 21,502.90.

Volume expanded to 300m shares from 230m, led by arbitrage and option-related trading. Declines outnumbered advances by 737 to 222, with 171 issues unchanged. The Topix index of all first section stocks weakened 19.13 to 1,666.70 but, in London, the ISE/Nikkei 50 index improved 4.34 to 1,246.97.

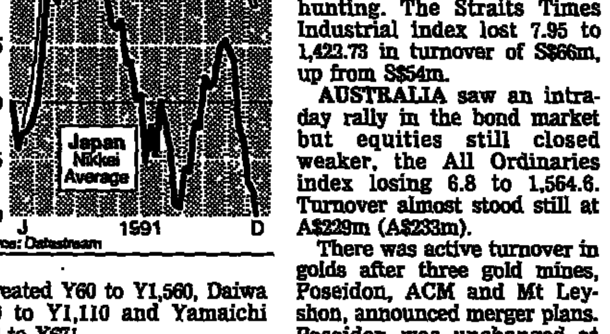
Speculative selling in the futures market triggered arbitrage unwinding. The fall in the March futures contract has prevented arbitrageurs from rolling over December contract positions, and analysts said that positions which have been rolled over are still under the risk of being unwound if March futures prices were to move below the level of cash stocks.

Option trading also became active. Traders sought "put options", or selling rights, around the 22,000 and 21,500 Nikkei level. Rumours that a senior securities house was in financial trouble, rife in the market a few months ago, were revived by speculators. "It is apparent that some people are trying to manipulate stock prices," commented Miss Caroline Stone at Barclays de Zoete Wedd.

Traders said the market was supported by heavy buying by the Big Four brokers – Nomura, Daiwa, Nikko and Yamaichi. Institutional bargain hunting focused on leading blue chip electricals and utilities.

Leading high-technology stocks were initially lower, but then rose on bargain hunting. Sony gained Y30 on the day to Y4,130, and Matsushita was finally Y10 ahead at Y1,400. However, precision engineering issues, which face double-digit declines in earnings for the current year, fell sharply. Nikon lost Y25 to Y875. The stock is also a component of the Nikkei average.

Broker issues were heavily sold on rumours of sharply lower earnings. Nomura retreated Y60 to Y1,560, Daiwa Y60 to Y1,110 and Yamaichi Y10 to Y671.



Source: Datastream

Steels lost ground on lower earnings prospects for the current year. Nippon Steel slipped Y7 to a year's low of Y363, Kobe Steel declined Y5 to Y418 and Sumitomo Metal Industries dipped Y9 to Y359.

Speculative issues were once again active on rumours that speculators were accumulating shares. Toyo Ink, the busiest issue of the day, rose by its daily limit of Y100 to Y903, while Meiji Milk Products advanced Y33 to Y1,030.

In Osaka, the OSE average receded 405.83 to 23,577.06 in volume of 32.3m shares.

Roundup

TOKYO'S troubles left most markets in the Pacific Rim lower yesterday, although Seoul saw a limited rise on window dressing.

HONG KONG was depressed by the weakness in Tokyo but finished above the day's worst. The Hang Seng index was finally 31.09 down at 4,097.23 but turnover jumped from HK$1.1bn to HK$2.3bn.

Tuesday's rumours of a placement of shares in Cathay Pacific, the airline, was confirmed by HSBC Holdings. Cathay dipped 10 cents to HK$9.70 after the sale of 108m of its shares at HK$9.50 each, while HSBC Holdings eased 25 cents to HK$34. The airline's leading shareholder, Swire Pacific, shed 30 cents to HK$22.50.

SINGAPORE fell but was lifted off its lows by bargain hunting. The Straits Times Industrial index lost 7.95 to 1,422.73 in turnover of S$66m, up from S$54m.

AUSTRALIA saw an intraday rally in the bond market but equities still closed weaker, the All Ordinaries index losing 6.8 to 1,564.6. Turnover almost stood still at A$229m (A$233m).

There was active turnover in golds after three gold mines, Poseidon, ACM and Mt Leyshon, announced merger plans. Poseidon was unchanged at A$1.28, ACM was down a cent at 58 cents and Mt Leyshon held at A$2.70.

News Corp dropped 58 cents to A$13.30 ahead of the listing of new stock later this week.

MANILA's composite index receded 12.05 to 1,129.08 on profit-taking, after Tuesday's 29-point rise. BANGKOK heard the securities house rumours from Tokyo and the SET index slipped 6.41 to 695.10 in volume of Bt3.9bn.

SEOUL's lonely move along the upgrade was helped by institutional investment buying, in an attempt to raise the composite index before December 26, the last day of trading for this year. The institutions succeeded to the extent of a 5.39 rise in the composite to 641.15.

EUROPE

Weakest bourses recoup part of their losses

TWO OF the weakest markets in recent days, Milan and Paris, recovered some ground yesterday, but most bourses continued to fall, *writes Our Markets Staff.*

MILAN rose after five consecutive days of losses, but one dealer refused even to call the 4.98 rise to 487.87 in the Comit index a technical rebound because volume was "so low".

Traders said that sentiment was still poor, partly owing to the collapse of the Pirelli/Continental talks on November 29. There were also further rumours that stockbrokers unable to meet requirements could disrupt settlement of the December trading account at the end of the month.

Pirelli SpA crept higher, rising L39 to L1,049. Other industrials recovered a little, with Fiat up L109 at L4,606, Montedison nosing up by L26 to L1,206 and Olivetti by L67 to L2,468.

PARIS also halted its recent run of losses, thanks to a strong futures market. The CAC 40 index rebounded from a day's low of 1,618.55 to close 8.63 higher at 1,645.56. Turnover was about FFr2.7bn after Tuesday's FFr3.3bn.

Elf Aquitaine recovered after Tuesday's late news that the government's share issue had been postponed owing to poor market conditions. The stock gained FFr9.60 or 2.7 per cent to FFr360 in FFr228m turnover.

Against the trend, Synthélabo, the pharmaceutical company which announced a bid for Delalande on Tuesday, dropped FFr21 to FFr970.

Crédit Local de France made a poor debut on the cash market, reaching a low of FFr190.10 before finishing at FFr203 compared with its offer price of FFr210.

MADRID continued to sink. The general index lost 2.95 or 1.2 per cent to 237.96 in modest turnover of about Pta11bn after Tuesday's Pta8.8bn.

Banco Hispano Americano performed slightly better than the market, losing Pta25 or 0.8 per cent to Pta2,990 in volume of 223,778 shares. The bank made a bid for 20 per cent of Corporacion Financiera Hispamer which it does not own. Hispamer was suspended.

AMSTERDAM drifted lower in cautious trading. The CBS Tendency index lost 0.9 or 1 per cent to 86.4. ING, the insurance and banking group, lost another Fl 1.10 to Fl 44.70 amid continued speculation that it will bid for Banque Bruxelles Lambert of Belgium.

FRANKFURT remained listless, the DAX index falling 7.72 to 1,543.59 after a fall of 4.91 to 628.22 in the FAZ at midsession. Volume edged up from DM3.25bn to DM3.65bn.

Volkswagen, one of the world's worst performing blue chips this year, fell DM4.60 to DM284.50, down from a 1991 high of DM417.50. The market is sceptical about VW's ability to finance an ambitious investment programme through normal cash flow, given the prospect of slowing German car sales next year.

Retailers came under pressure after a bearish German newsletter article on industry prospects. Asko fell another DM13 to DM582, merely adding to its recent losses, but more fancied names like Douglas and Karstadt also dropped, by DM19 to DM653 and DM11.80 to DM599.20 respectively.

Among insurers, AMB fell DM15 to DM755. Royal Insurance of the UK is selling an 18.8 per cent stake in AMB to Fondiaria of Italy, putting an end to expectations of a share swap between AMB, Royal and Fondiaria. But observers said that AMB's weakness related more to its holding in BfG, the struggling, ex-trade union bank, and worries over eastern European debt.

ZURICH sagged across the board in thin volume. The Crédit Suisse index shed 3.9 to 437.2 after Tokyo's sharp fall.

STOCKHOLM followed the downtrend in the D-Mark bloc, the Affärsvärlden General index falling 7.50 to 902.60 in moderate trading. Dealers noted continued interest in the insurance major, Skandia, which rose SKr8 to SKr158.

OSLO's all-share index fell 2.74 to 408.02. Den norske Bank, Norway's biggest bank, had the largest percentage fall, declining NKr1.6 to NKr7.4 on renewed pessimism about the banking sector although Fokus Bank, suspended from the bourse, won a NKr475m state bail-out yesterday.

HELSINKI hit a 1991 low for the third successive day, the Hex index falling 20.5, or 2.6 per cent to 777.0. VIENNA also fell to a year's low. The ATX index lost 8.28 to 909.89 while the all-share bourse index fell 4.35 to a 1991 low of 421.93.

FT-SE Eurotrack 100 - Dec 11

Hourly changes

Open	10 pm	11 am	Noon	1 pm	2 pm	3 pm	Close
1031.37	1030.41	1030.96	1032.20	1034.49	1034.49	1035.75	1034.07

Day's High 1036.27 Day's Low 1028.78

Dec 10	Dec 9	Dec 6	Dec 5	Dec 4
1034.94	1039.46	1041.36	1050.13	1058.20

Base value 1000 (26/10/90)

SOUTH AFRICA

A DECLINE in the bullion price wiped out part of the recent gains in Johannesburg's gold sector. The all-gold index fell 34 or 2.6 per cent to 1,256, the overall index lost 28 to 3,493 and the industrial index slipped 16 to 4,156.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	TUESDAY DECEMBER 10 1991 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY DECEMBER 9 1991 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1991 High	1991 Low	Year ago (approx)
Australia (69)	145.92	−0.7	119.66	118.66	119.60	125.39	−0.8	4.65	146.98	120.62	119.29	120.28	126.35	180.31	112.74	121.14
Austria (20)	162.46	−1.6	133.22	132.12	133.16	133.31	−1.2	2.16	165.06	135.48	133.99	135.09	134.91	222.37	153.86	213.67
Belgium (47)	134.06	−1.5	109.94	109.02	109.88	107.62	−0.9	5.50	136.18	111.76	110.52	111.44	108.64	151.20	118.04	139.56
Canada (115)	134.03	−0.4	109.91	108.99	109.84	110.25	−0.4	3.39	134.53	110.41	109.16	110.08	110.66	144.28	126.49	129.38
Denmark (37)	255.57	−0.7	209.57	207.84	209.47	213.34	−0.4	1.68	257.45	211.29	208.96	210.68	214.21	270.56	217.74	244.38
Finland (15)	76.29	−1.6	62.56	62.04	62.53	68.50	−1.1	3.56	77.51	63.61	62.91	63.43	69.29	125.15	75.80	106.65
France (109)	134.68	−1.6	110.44	109.51	110.37	113.82	−1.5	3.89	136.92	112.37	111.12	112.03	115.55	152.26	119.11	144.09
Germany (65)	111.28	−1.0	91.25	90.51	91.21	91.21	−0.6	2.63	112.41	92.25	91.25	91.98	91.98	125.35	94.15	120.53
Hong Kong (55)	169.96	−1.7	139.37	138.21	139.31	169.59	−1.7	4.38	172.97	141.95	140.38	141.55	172.57	176.14	119.62	127.17
Ireland (18)	156.47	−0.6	128.31	127.25	128.25	130.31	−0.2	3.85	157.40	129.18	127.75	128.80	130.62	182.46	132.88	156.58
Italy (77)	68.60	−1.1	56.26	55.79	56.23	61.12	−1.0	3.79	69.39	56.95	56.31	56.78	61.72	88.23	64.76	82.27
Japan (474)	129.24	−1.1	105.98	105.10	105.94	105.10	−0.9	0.81	130.70	107.27	106.08	106.97	106.08	146.97	118.23	130.15
Malaysia (68)	204.07	+0.2	167.34	165.95	167.25	215.43	+0.2	2.89	203.72	167.19	165.34	166.70	215.09	247.78	189.16	204.65
Mexico (17)	1306.10	−1.2	1071.03	1062.15	1070.51	4342.63	−1.2	1.18	1321.62	1084.65	1072.67	1081.51	4394.21	1404.83	534.45	606.39
Netherland (31)	144.69	−0.4	118.65	117.67	118.60	117.29	−0.3	4.60	145.30	119.25	117.93	118.91	117.65	148.25	125.70	135.00
New Zealand (14)	45.47	+0.6	37.29	36.98	37.27	43.38	+0.7	6.33	45.19	37.08	36.68	36.98	43.08	54.84	41.18	46.54
Norway (30)	172.97	−1.1	141.83	140.66	141.77	146.09	−0.8	1.77	174.91	143.55	141.97	143.14	147.25	223.24	157.08	214.49
Singapore (38)	204.57	−0.7	167.75	166.36	167.68	155.55	−0.5	2.25	205.98	169.05	167.18	168.56	156.38	213.93	151.63	161.17
South Africa (61)	260.62	−0.2	213.71	211.93	213.80	178.29	+0.1	2.76	261.12	214.30	211.93	213.68	178.08	271.99	173.00	181.52
Spain (53)	146.55	−1.6	120.17	119.18	120.11	112.13	−1.4	4.93	148.95	122.24	120.89	121.89	113.69	171.12	131.51	152.77
Sweden (25)	168.49	−0.5	138.17	137.02	138.10	144.05	−0.4	3.10	169.32	138.96	137.43	138.56	144.57	204.12	146.60	170.14
Switzerland (59)	94.67	−0.7	77.63	76.99	77.60	81.84	−0.4	2.44	95.33	78.24	77.38	78.02	82.21	100.67	82.17	91.94
United Kingdom (238)	172.73	−0.5	141.64	140.45	141.56	141.64	−0.6	5.29	173.64	142.50	140.92	142.08	142.50	187.44	156.27	168.11
USA (526)	154.08	−0.1	126.35	125.30	126.29	154.08	−0.1	3.16	154.20	126.55	125.16	126.19	154.20	161.59	125.95	131.90
Europe (824)	137.49	−0.9	112.75	111.81	112.70	113.41	−0.8	4.26	138.69	113.82	112.57	113.50	114.31	151.52	125.50	140.30
Nordic (107)	174.22	−0.7	142.87	141.68	142.80	141.95	−0.5	2.28	175.46	144.00	142.41	143.58	142.59	200.81	155.55	177.17
Pacific Basin (718)	130.62	−1.1	107.11	106.22	107.06	107.35	−0.9	1.15	132.07	108.39	107.19	108.07	108.35	145.92	117.86	129.36
Euro−Pacific (1542)	133.68	−1.0	109.62	108.70	109.56	110.52	−0.9	2.43	135.03	110.82	109.59	110.49	111.48	147.66	121.29	134.17
North America (641)	152.77	−0.1	125.27	124.25	125.23	151.11	−0.1	3.17	152.91	125.49	124.12	125.15	151.25	160.44	125.91	131.66
Europe Ex. UK (586)	116.41	−1.1	95.46	94.69	95.43	97.20	−0.9	3.49	117.73	96.62	95.57	96.36	98.10	129.80	103.58	122.96
Pacific Ex. Japan (244)	144.21	−0.9	118.26	117.29	118.21	128.51	−0.9	4.22	145.53	119.43	118.13	119.10	129.68	153.19	111.40	119.32
World Ex. US (1735)	135.78	−1.0	111.34	110.43	111.29	112.29	−0.8	2.46	137.11	112.52	111.29	112.20	113.24	148.16	122.32	134.75
World Ex. UK (2023)	137.90	−0.7	113.08	112.15	113.04	123.65	−0.6	2.42	138.81	113.92	112.67	113.60	124.33	146.16	120.06	129.25
World Ex. So. Af. (2200)	140.13	−0.6	114.91	113.97	114.86	124.89	−0.6	2.72	141.04	115.75	114.49	115.43	125.60	148.66	122.92	132.40
World Ex. Japan (1787)	148.47	−0.4	121.75	120.75	121.71	136.60	−0.4	3.59	149.09	122.36	121.02	122.03	137.13	155.59	126.69	135.33
The World Index (2261)	140.94	−0.6	115.57	114.62	115.52	125.38	−0.6	2.72	141.85	116.41	115.13	116.09	126.08	149.37	123.28	132.70

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A FINANCIAL TIMES SERIES: Part 11

EUROPEAN FINANCE AND INVESTMENT

FRANCE

SECTION III

New system takes shape

France has laid the foundations for a thoroughly modern financial system. But the legacy of the old rituals and lingering anachronisms still cast a cloud over the country's attempts to prepare its finance industry for the 1990s. Alice Rawsthorn reports

IF YOU walk along the Rue Cambon in Paris, past the *glossy black and white* of Chanel and just across from the canopied portals of the Ritz, you espy a sci-fi scene of iridescent blue lights flickering around a battery of video screens behind the ancient sandstone.

This is the new headquarters of the Société des Bourses Françaises. In many ways the juxtaposition between the state-of-the-art interior and classical façade of the new building acts as an apt metaphor for the position of the bourse and for the rest of the French *financial system*.

After years of political reform, championed both by Mr Pierre Bérégovoy, the French finance minister, and Mr Edouard Balladur, the conservative who took his place between 1986 and 1988, France has laid the foundations for a thoroughly modern financial system. Old monopolies have been broken, closed markets opened and electronic networks introduced. The banks *and broking houses* have drifted away from the *grands boulevards* of central Paris to shiny new offices around the La Défense commercial centre to the west of the city and the new finance ministry at Bercy in the east.

The French have been forced to forge this modern system within the framework of the old financial infrastructure founded in the 18th and 19th centuries. The legacy of the old *rituals, as well as lingering* anachronisms such as the stranglehold over the savings market and the influence of the government over the state-owned banks, still casts a cloud over France's attempts to prepare its finance industry *for the 1990s*.

As a result, the French financial markets, like so many other aspects of the economy, are a motley assortment of the old and the new. It is too soon to tell how successful this blend will be. So far the progress of the Bérégovoy and Balladur reforms has been impeded by the economic slowdown and the unstable state of other international markets. It is only over the next few years that *France will discover* whether its financial system really is equipped for the exi*gencies of life in a modern* financial market.

The stock market is a typical case. The market was transformed in the 1980s. The old guard of *agents de change* who dominated the Paris broking world for decades have all but disappeared. A new breed of internationally oriented brokers, often backed by the big New York and London houses, has taken their place. The process of buying and selling *shares has been fully automated*. Some aspects of the French system, notably Relit, the automated settlement pro*cess introduced in autumn last* year, are as, or more, advanced than their counterparts anywhere in the world.

However, Paris still has its drawbacks as an international trading centre. "Some facets of our system, like the technology, are fine, but there is still a need for further change," says Mr Jean Charles Dupuis, director general of James Capel, the Paris broker. "Liquidity is still a problem. There are also too *many captive clients*. And there are too many companies competing in the market."

Liquidity is a serious issue. The volume of trading in Paris is still lammentably low compared with New York, Tokyo and London. One of the main difficulties is the drift of block trading, or of the large deals worth more than FFr20m, from Paris to London. Since deregulation the French system has offered significant benefits in terms of security and transparency to private investors, but has not been flexible enough, *or perhaps a little too transparent*, for bigger traders.

The liquidity issue is being addressed. The Bacot report, which is being prepared by a working party headed by Mr François Bacot, managing director of Bacot Allain, the Paris broker owned by Warburg, the London-based securi*ties group, is expected to sug*gest solutions to the block trading problem when it is published, after a delay, later this month.

Meanwhile, the government's partial privatisation programme, which has started *with the sale of minority* stakes in Elf Aquitaine, the oil group, and Credit Local de France, the bank specialising in local authority loans, should help to stimulate activity on the market.

Some observers of the French financial scene are sceptical about the impact of partial privatisation arguing that the ammounts of equity involved will be too small to make a difference. Others, *such as Mr Jean-Francois* Théodore, president of the bourse, are convinced that it marks the start of *significant* shift in government policy which will be accelerated in the future. The privatisation programme, he argues, coupled with other measures such as legislative action on stamp duty, should "do a great deal to stimulate activity."

It remains to be seen whether Mr Théodore's optimism will be borne out. In the meantime, the Paris brokers are still struggling for business *in an intensely competitive* and, by common consent, overpopulated market. So far 1991 *has been spared any collapses* on the scale of the Tuffier *débacle* last year, when one of the most prominent Paris brokers crashed, but many houses are trading at a loss and other closures seem inevitable.

"There are too many people chasing too little business," said Mr John Cousins, director general of BZW Puget-Mahe, the Paris subsidiary of BZW, the UK securities group. "There is bound to be some *sort of fall-out*."

A similar scenario whereby the progress of new reforms is impeded by old rituals is replicated in other areas of French *finance. The banks have* largely been spared the falling profits and painful provisions that marred last year. However, profitability is still a problem, particularly given the precarious state of certain sectors, notably property, and the weakness of the credit market.

"The situation has improved since last year," said Mr René de la Serre, director general of Crédit Commercial de France, a leading private sector bank. *"But the level of profitability* in French banking is still too low and we must continue to modernise to meet the needs of our customers."

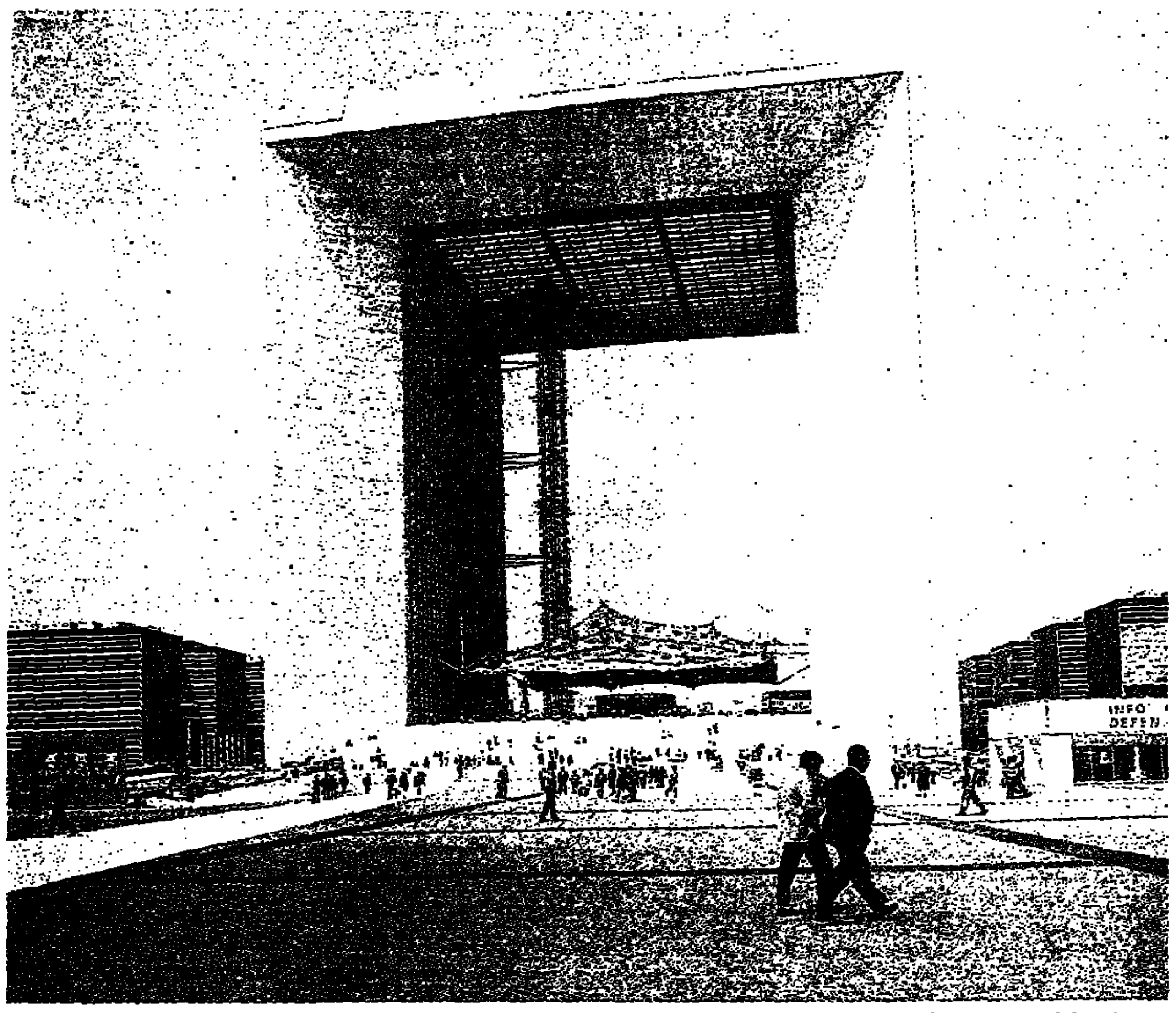
Meanwhile, the future of Crédit Lyonnais, one of the biggest banks of all, is clouded by *the legacy of its ambitious* expansion in the late 1980s and the adverse publicity about its legal battle with Mr Giancarlo Paretti, the flamboyant Italian financier, over the takeover of MGM, the US movie studio.

The Crédit Lyonnais controversy, coupled with the losses from their international expansion, particularly into the *depressed UK market*, has prompted the French banks to adopt a more cautious approach. Gone are the days when they talked airily about *positioning themselves along*side the Americans and the Japanese in international corporate finance. Parisian names such as Paribas are accepted as serious players in the capital markets, but the French banks are now more modest in their aspirations in other areas.

The insurance companies, fresh from their own sorties into other countries, are pondering the implications of the French government's recent announcement that the three state-controlled insurers – Union des Assurances de Paris (UAP), Assurances Générales de France (AGF) and Groupe *des Assurances Nationales* (GAN) – could be candidates for partial privatisation.

All the insurers, like the rest of the French financial sector, are preparing for the prospect of legislation to encourage the development of private pensions in France which ought to open up new business opportunities across the sector.

It is this combination of legislative action and market dynamics which will drive France's financial system in the 1990s and will help to determine its international role.



La Défense, Grande Arche, banks and broking houses have drifted away from Paris to new offices around the commercial centre

■ECONOMY: the recovery remains stubbornly slow, but . . .

A change of policy direction seems unlikely

AS 1991 draws to a close, France is starting gradually to recover from the economic slowdown which took hold a year ago. Mr Pierre Bérégovoy, finance minister, like Mr George Bush, the US president, impatiently tries to urge things on with cries of optimism and encouragement, but the recovery remains obstinately slow, and few observers foresee an early return to rapid growth.

Mr Bérégovoy's impatience is understandable. In spite of the earlier years of fairly rapid growth, unemployment remains painfully high. After peaking at 10.5 per cent in 1987, it gradually declined to 8.9 per cent in 1990, but over the past year it has been rising again, and has reached 9.6 per cent.

In absolute terms, this means an unemployment level of 2.7m people and few observers discount the possibility that the upward trend could carry the total up to 3m. By common consent, the definition of unemployment as it is applied in France is considerably looser than the internationally-accepted criteria of the Geneva-based International Labour Organisation.

The government is trying to go over to the tighter criteria, if only because it could bring significant savings in unemployment benefits; and it has started publishing statistics which translate French unemployment into ILO terms, which show unemployment as only 2.3m.

The problem is that a revision of the statistical base can do nothing to change the trend, which is of deteriorating unemployment. The recovery, when it comes, should slow down the rise in unemployment, and may even halt it. But forecasts do not hold out hope of the kind of recovery which could be relied on to bring unemployment down again.

For 1991 the government is looking for economic growth of 1.4 per cent, compared with 2.6 per cent in 1990. Next year should be much better than this. But because the authorities were taken by surprise by the suddenness and the depth of this year's slow down, they have been correspondingly cautious in their forecast for 1992, which they have pitched at 2.2 per cent, significantly below the OECD forecast of 2.6 per cent.

French Economic Forecasts 1990-92

International environment	1990 (%)	1991 (%)	1992 (%)
Growth of main trading partners	2.6	1.4	2.6
Growth of six EC partners	2.9	1.6	2.1
GDP	2.6	1.4	2.2
Consumption	2.9	1.7	1.8
Corporate investment	4.5	-0.8	3.5
Exports	5.1	3.8	6.0
Imports	8.5	2.9	5.2
Inflation (year on year)	3.4	2.8	2.8
Inflation (average annual)	3.4	3.0	2.8
Price of Opec petrol	$22.5	$19	$19
$ exchange rate	FFr5.45	FFr5.75	FFr6.0
Trade balance	-FFr49bn	-FFr45bn	-FFr40bn

Source: Ministry of Finance


Shadowing the polls: substituting Edith Cresson for Michel Rocard did nothing for the government's popularity

This is a particularly painful situation for a socialist administration which has been in power for 10 years. Not only does it reflect poorly on the most basic political credentials of President François Mitterrand and his successive socialist governments, but it seems to be pointing towards a succession of heavy electoral defeats.

The first electoral deadline, will be the regional elections which take place next March. These will not directly threaten the government, but they will be a powerful indicator of the political trend on the way towards the general elections in the spring of 1993. In particular, they will be a litmus test of the increase in anti-immigrant sentiment in France (as in a number of other European countries).

It is widely expected that the extreme right-wing National Front, which registers about 15 per cent in opinion polls, is likely to make further advances; and it seems probable, to judge from the anti-immigrant flavour of some of their recent declarations, that some of the leaders of the traditional conservative parties will shamelessly seek to compete with the National Front, but even more with each other, for the anti-immigrant vote.

If that competition proves successful, it may give a new appearance of respectability to xenophobia in France, and thus define one of the central themes of the general election debate in the spring of 1993.

On current form, the socialists seem doomed to a heavy defeat in that election. Most current simulations suggest that they are likely to do even worse than they did in 1986, when they were briefly replaced by a Gaullist government. Of course, polls taken in mid-term are often unfavourable to the government; nearer the day, there may be a swing back by traditional socialist supporters, especially if the economic recovery proves buoyant and seems durable.

The problem is that popular discontent seems to be directed as much at President Mitterrand as against his government. When he dismissed Mr Michel Rocard as prime minister last May, and replaced him with Mrs Edith Cresson, President Mitterrand evidently hoped that this *coup de théâtre* would give the government a new elan.

In practice, the result has been quite the reverse. Mrs Cresson's popularity has sunk like a stone, and has dragged President Mitterrand down. The most recent poll shows that Mrs Cresson has the support of only 19 per cent of the electorate, the worst score of any prime minister in the 33-year history of the Fifth Republic. But President Mitterrand is not much better off, since his popularity rating has sunk to only 28 per cent, his worst score since 1984.

It is not surprising, therefore, though it may be a sign of desperation, that President Mitterrand proposes to launch a constitutional reform in the second half of next year, including, no doubt, a shortening of the presidential term from seven to five years. He may believe that such a reform will enable him to restore his political standing, and that of the socialist party, by campaigning on his personal record, and avoiding such embarrassing questions as the level of unemployment.

What is striking in all this is that no main party, and almost no leading politician, seriously argues that there is a different and a better economic policy which would bring faster economic growth and lower unemployment. Between the socialist government and the conservative opposition there is a virtual consensus on the broad lines of economic policy, to bring down inflation by budgetary and monetary discipline.

This policy was adopted by the socialists in 1984, it was followed by the conservatives in 1986-88, and it has continued to be followed by the socialists ever since. In its own terms, it has been remarkably successful. With the exception of the recession year of 1991, the budget deficit has steadily been reduced; and the equally steady reduction in the rate of inflation has finally and triumphantly brought it below the German rate.

The only significant debate remaining between left and right is over the privatisation of state assets, but even here the gap has been narrowed. In 1988 President Mitterrand attempted to freeze the nationalisation-privatisation debate, but this year his government has cautiously started partial sell-offs of government share holdings, as a way of financing employment-promotion schemes.

This consensus is partly the result of intellectual conversion to the inherent economic merits of monetary stability. But it is more the result of France's political commitment to the European Community in general, and to the programme for Economic and Monetary Union in particular.

That commitment, in turn, owes much to France's long and successful history of participation in the process of European integration. But in its present phase it owes even more to the personal commitment of President Mitterrand. It may be true, as most leading politicians seem to believe, that France does not have much option of a significantly different economic policy from the one it is now following. It is certainly true that President Mitterrand is unlikely to contemplate any change in economic policy which could jeopardise his European strategy.

Ian Davidson

■THE BANKS: outlook is rosier than a year ago

Debate over role models

FRANCE'S TOP 10 BANKS: 1990 ($m)

	Capital	Capital/assets ratio (%)	Profits	Assets
1 Crédit Agricole	13,186	4.35	1,381	302,983
2 Crédit Lyonnais	9,718	3.41	1,513	285,238
3 Banque Nationale de Paris	9,368	3.23	603	289,747
4 Compagnie Financière de Paribas	8,717	4.73	1,098	184,232
5 Gpe des Caisses d'Epargne Ecureuil	6,942	3.99	721	174,030
6 Société Générale	6,153	3.01	720	204,486
7 Groupe des Banques Populaires	3,101	3.98	367	77,936
8 Union Européene de CIC	2,187	2.45	306	89,243
9 Banque Indosuez	2,053	3.04	299	67,507
10 Crédit Commercial de France	1,749	3.16	236	55,269

Source: The Banker, September 1991

WHEN Crédit Lyonnais, one of the great Lyons banks, opened its opulent Paris headquarters on Boulevard des Italiens in the 1800s it deliberately chose a building designed as a department store. If its foray into the French capital failed, or so the bank thought, at least it could recoup some of the money by turning its headquarters back into a store.

The joke running around the Parisian banking halls is that number 19 Boulevard des Italiens may yet become a department store. Crédit Lyonnais is in trouble. The double blow of the hefty foreign exchange losses incurred by Altus Finance, its treasury banking subsidiary, and a steep increase in client risk provisions produced a sharp fall in net profits for the first half of this year. Crédit Lyonnais has had to fend off the furore over its bitter legal battle against Mr Giancarlo Paretti, the flamboyant Italian financier concerning the takeover of MGM, the Hollywood film studio.

So far Crédit Lyonnais and its senior management, led by Mr Jean-Yves Haberer, the controversial chairman, have emerged unscathed. But the other Paris banks are still riddled with rumours about what may, or may not, happen in the future.

Crédit Lyonnais, and its ill-fated Hollywood adventure apart, the outlook for the French banks is rather rosier than it was a year ago. A number of the big banks were then still licking their wounds after announcing falls in first half profits and steeling themselves to make painful provisions for the full year.

This year business has been better. Demand for credit is poor. Consumer credit has been hit by concern about rising unemployment. Commercial credit has been affected, albeit to a lesser extent. Moreover, the banks are burdened by the losses from their forays overseas, notably into the UK, where some, such as Crédit Agricole, have suffered severely from corporate collapses, and from their ventures on the fiercely competitive French equities market.

However, the banks have made progress at controlling costs, in stark contrast to 1990. As a result, with the exception of Crédit Lyonnais, the big banks produced respectable increases in profits for the first half of this year.

Banque National de Paris (BNP), which fared worst of all last year with a 33 per cent fall in first half profits, staged a remarkable recovery in the same period this year. It managed to restrict the rise in its costs to FFr19.2bn, an increase of 8.7 per cent, at a time when net banking income rose by 9.3 per cent. As a result its gross operating profits increased by 10.8 per cent to FFr5.4bn and net profits by a buoyant 71.2 per cent to FFr1.6bn.


Ashley Ashwood
Business as usual: the Paris banking hall of the Société Générale, still unassailable in retail banking

The improvement in BNP's fortunes is mirrored in that of other banks. "The financial performance of the banks has been better so far this year," says Mr René de la Serre, director general of Crédit Commercial de France, one of the larger banks which lifted its net profits by 82 per cent to FFr648m in the first half. "This is partly because of a general improvement in the market and partly because most banks have not had to make such large provisions as last year."

However, the French banks are still in a state of flux. Their domestic market is becoming increasingly competitive. The *trois vieilles*, as BNP, Société Générale and Crédit Lyonnais are called, are still unassailable in retail banking. But investment banking, traditionally dominated by Paribas and Indosuez, is increasingly crowded thanks to the expansion of the big US and UK banking groups in France. There are signs of New York and London houses preparing to steal a march on the French houses in burgeoning markets such as unit trusts, fund management and, eventually, in private pension schemes.

"It would be absolutely crazy – a complete waste of time – for a foreign firm to even think of competing against the big three in retail banking," says Mr John Cousins, head of the Paris office of Barclays de Zoete Wedd, the British finance group. "But there are enormous opportunities in the new French markets like pensions and fund management."

French banks are beset by heavy pressure on margins. A recent report in La Tribune de l'Expansion, the French economic daily newspaper, estimated that banking margins have fallen from 6 per cent to 4 per cent since 1985. In the late 1980s the banks were able to counter this margin pressure by drumming up extra volume. The abolition of credit controls in 1987 created a buoyant source of new business, particularly from consumer credit.

The economic slowdown, coupled with rising personal debt, has called a halt to the rise in credit. Banks are left to get to grips with all the usual pressures on costs at a time when some of their loans and investments of the late 1980s are turning sour and they have no hope of drumming up additional volume.

In a sense these problems pale beside the central issue facing the French banks: what role should they adopt for the future? For years the industry has been torn between following the German model of the universal bank, like Deutsche Bank, with interests across the banking sphere and sizeable investments in industry, and the Anglo-Saxon stereotype typified by Morgan Stanley or Goldman Sachs, the US investment banks.

The eventual fate of Crédit Lyonnais is certain to influence the debate. Although the French investment banks, Paribas and Indosuez, have long held equity stakes in some clients, Crédit Lyonnais has gone further than any other French bank in following the German model of industrial involvement.

Under Mr Jean-Yves Habérer, Crédit Lyonnais not only expanded aggressively across Europe, with a series of acquisitions including Banco Commercial in Spain and Credito Bergamasco in Italy, but also took a string of equity stakes to build up its corporate finance activities.

At first the strategy seemed to work. Crédit Lyonnais trumpeted an 18.5 per cent rise in net profits to FFr3.7bn in 1990, at a time when both Société Générale and BNP saw their profits fall sharply. This year the picture has looked very different after all the adverse publicity over the *Paretti affaire* and the 25 per cent drop in net profits to FFr1.8bn during the first half.

Whatever the real extent of Crédit Lyonnais's difficulties, its problems have cast serious doubts over the sagacity of a French bank paying so high a price to turn itself into a German-style universal bank. While Crédit Lyonnais's competitors await the next twist in its tale, the debate over the long-term role of the big French banks rolls on.

Alice Rawsthorn

The Paris bourse seems prepared for the 1990s but structural weaknesses remain and large block trades still go through London

Exposed by the the market's transparency

EUROPE'S stock exchanges, far from integrating as some visionaries might have hoped, are competing more fiercely.

This year's lower levels of volume have sharpened the perception that global securities trading and the single market pose just as many threats as opportunities to the established order.

However, Paris has some undeniably good cards. Technically, its trading and settlement systems are highly advanced. Its Matif futures and Monep traded option markets boast a range of attractive products and have built up respectable volumes since their 1987 launch. Privatisation and private pension funds, both in their infancy in France, potentially hold the key to expanding supply and demand for French shares.

The process of bourse reform and restructuring, which has inspired changes in recent years, has some way yet to run. Financial pressures on stockbroking firms have intensified in the last few months and have highlighted the French market's unacceptably high cost base. The challenge of block trade business lost to London has not been successfully addressed. And doubts persist as to whether a market primarily adapted to retail needs can sufficiently adjust to serve a substantial institutional client base.

Mr Jean-Francois Théodore, the thoughtful ex-banker who chairs the Société des Bourses Françaises (SBF), believes better volumes will return when real interest rates fall and competition from money market funds subside. A stamp duty of 0.3 per cent on transactions up to FFr1m, and 0.15 per cent thereafter, is another preoccupation but he is confident that this will eventually go "under the competitive pressures of the single market", even if its abolition is not imminent.

Mr Théodore claims that "a lot of knowledge and know how" has been built up as a result of the 1988 reforms. "There is a new generation of intermediaries," he explains. France's bang has had as profound an impact as other stock exchange reform programmes in Europe, breaking the cosy old monopoly by allowing banks to buy their way into securities firms. Fixed commissions were abolished in 1989, with brokers free to fix their own rates.

The bourse's computer-based, order-driven trading system (CAC, or Cotation Assisté en Continu) was introduced in 1986, but the market's pride and joy is a FFr600m electronic clearance and settlement system (Relit) which covers the most actively traded shares. A five-day rolling settlement cycle is being phased in across the market.

Mr Théodore's conviction that Paris is technically well equipped for the 1990s is matched by his certainty that the market potential is there. The total capitalisation of the Paris bourse, he points out, is just 25 per cent of France's gross domestic product. This compares with a ratio of 50 per cent in the US and more like 90-100 per cent in the UK and Japan. These are gaps which he believes must narrow over time.

"We have a huge public sector, but the debate is now not about whether to privatise but between partial and total privatisation. Globally speaking, the public sector needs finance which the budget is unable to supply. The only place to find it in the long run is the stock exchange," he says.

If privatisation issues hold out the hope of some attractive new paper over the next few years, the development of pension funds can be expected to increase demand. At the moment, France operates a pay-as-you-go social security system, whereby working people pay to support those who have retired. Not all French Treasury officials agree but there is a widespread view among practitioners that the arrangements will buckle under the weight of demographic change.

Mr John Cousins, managing director of BZW in Paris, is a passionate advocate of privately funded pensions and maintains that this will be a growth sector for this firm in the next few years. Long-term savings are not greatly encouraged by France's existing tax structure. The political obstacles should not be discounted but the hope is that some sort of incentive package may be introduced next year.

In the meantime, Paris remains preoccupied with structural weaknesses vis-a-vis international competitors such as London's Seaq international market. Opinions vary as to whether stamp duty is a real issue (some observers maintain that evasion is widespread and avoidance possible).

The defection of business to London also underlines the need to tackle the high costs of the Paris market, which have been loaded by the need to pay for new technology

The main reason why many of the very large block trades of the FFr20m-FFr50m variety are routed through London is the very transparency of the Paris market. Special rules for block trades were introduced in 1989 but by all accounts these have failed to work because traders still have to disclose the price at which they do deals. Using Seaq International, by contrast, dealers are able to handle large quantities of stock outside the official market, making disposal much easier via a series of private trades.

The official view in Paris – propagated in the debate over the European Commission's draft investment services directive – is that transparency is necessary for the protection of small investors. Hence the tendency of the French government and bourse officials to plead common cause with other regulated markets for as much centralisation as possible.

Recent experience – and the battle between Seaq International and the US over the counter market Nasdaq – suggests that the trend may be in the other direction. For this reason the close relationship between the government and the bourse, described dismissively as Colbertisme by BZW's Mr Cousins, could make any conversion more difficult in the coming months.

The defection of business to London underlines the need to tackle the high costs of the Paris market, which have been loaded by the need to pay for new technology. The problem has been partly addressed by the de la Serre committee, whose proposal to allow the segmentation of broking functions from the New Year should help consolidate back office capacity.

According to Mr Jean Charles Dupuis, chairman of James Capel in Paris, there are still far too many firms fighting for business. Mr Dupuis blames the attitude of the banks and maintains that there is ultimately room for perhaps 15 firms, against the 48 which are now active.

A recent article in the French newspaper Le Figaro, estimated that only 14 of these were making a net profit. There are many in Paris who would say that this figure was too high.

Tim Dickson

Equities in Paris (trade volume, FFrbn)

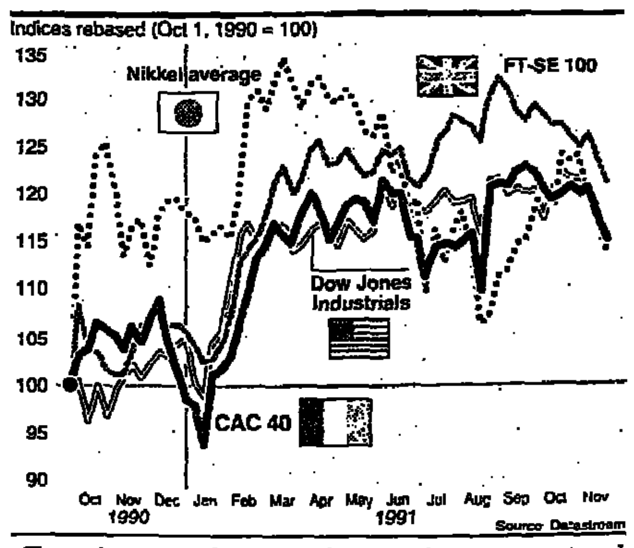
Equities	1990	1989	% change
French RM	566	567	−0.2
French cash	60	73	−18.0
French second market	39	41	−5.0
Foreign RM	22	23	−4.0
Foreign cash	3	4	−25.0
Hors-cote	8	7	+14.0

Source: Société des Bourses Françaises
RM: monthly settlement market

Bonds in Paris (trade volume, FFrbn)

	1990	1989	% change
State issues	1,755	2,179	−19.0
by primary dealers	990	1,349	−27.0
Public sector bonds	860	766	+12.0
Private sector bonds	397	362	+10.0
Foreign bonds	6	3	+100.0

Source: Société des Bourses Françaises



Source: Datastream

The dealing room of Banque Nationale de Paris

BOURSE REFORM

Small bang fall-out

"PARIS'S small bang has been much more of a big bang culturally than the one in London ever was," says Mr Micha Spierenburg, president of S.G.Warburg France.

He should know. Warburg was one of the first foreign securities business to buy a local broker. It acquired Bacot Allain after the first round of Paris stock market liberalisation got under way in 1988, when undercapitalised French stockbrokers were allowed to take on outside investors for the first time.

Since then, all but four of the 58 member firms have linked with an outside partner, and 13 are majority foreign owned. This means that non-French houses, mainly UK, US and Japanese, handle an estimated 30 per cent share of trading in French equities.

The first round of stock exchange reforms has achieved exactly what its designers at the Finance Ministry hoped – to create a modern and efficient market with a high degree of transparency. There have been scandals, such as last year's spectacular collapse of Tuffier et Associès, one of the largest independent houses. The weaknesses that this exposed in French investor protection are being acted on and Paris can count itself lucky to have had far fewer security business failures and scandals than the US or Japan.

What the planners of the first round of French stock exchange reforms failed to foresee was the steady flow of business to the less tightly regulated London. It is an illustration of the competitive shocks imposed by the development of the single European market.

Stock market professionals blame this on the lack of an effective system for big institutional investors to trade large blocks of shares off the central market, a service easily available to French investors via London's Seaq International.

Seaq handles at least 20 per cent of the trading in France's top 50 listed companies, estimates Mr François Bacot, managing director of Bacot Allain, who is leading a working party due to report to the Finance Ministry by the end of the year on how to improve France's restrictive two-year-old block trading system.

One answer would be to allow brokers to act as market makers for block deals in France, like their Seaq counterparts, rather than being restricted to matched bargains as at present, argues Mr Bacot. "If we decided that there would be no market making, we would be out of the game," he says. Several operators have been forced to trim their operations, under the influence of declining volumes and commission rates, so that the number of people employed by Paris stockbrokers fell to 5,000 from 6,500 in 1990, according to a study by Price Waterhouse, the accountants.

Technical reform is only part of the solution, Mr Bacot stresses. The real problem is that French brokers are historically attuned to executing small transactions and only have real experience in large scale market making for bonds and traded options. "The best solution to block trading is to have people in which investors can be confident," he says.

Finance Ministry officials agree on the importance of block trading, but at the same time want to achieve in France more transparency than available under the Seaq system. Just how to strike the balance is the main issue for the Bacot report, they say.

Mr Bacot's study is probably the most important element in the second round of stock market reform under way in France. The impact of the first set of changes has been to break up the stockbroker cartels, computerise settlement and trading and overhaul the rule book.

The 1988 liberalisation was accompanied by the establishment of the stock exchange's two operating bodies, the Société des Bourses Françaises (SBF) as market executive and the Conseil des Bourses de Valeurs (CBV) as regulator. The CBV works alongside the Commission des Operations de Bourse, which since 1967 has been the market watchdog, and was given independence and more power to impose sanctions in 1989.

Brokers were given the freedom to become market makers – on the regulated central market – and trade on their own account for the first time in 1989. This opened the way for brokers to develop a new source of profit to compensate for the blow to margins inflicted by the disappearance of fixed commissions in July that year, though it gave rise to regulatory problems later.

The final step in the first round of reforms comes next month when outside institutions will be free to apply for stock exchange seats, currently restricted to the 58 member firms.

The impetus for the new wave of reforms came from the market's leading professionals, who in July produced a wide-ranging study on the market's competitive weaknesses, edited by Mr René de la Serre, managing director of Crédit Commercial de France, the privatised bank. One of its main recommendations, to issue licenses allowing brokers to segment their various functions, has been acted on. From January, the CBV will issue separate licenses for different combinations of activities, such as share trading, back office execution and custody of equities.

This has two advantages. It enables under-capitalised small brokers to get a license to offer a simple dealing service and to sub-contract capital intensive clearing activities to a leading securities house.

The change is designed to improve investors' confidence by licensing brokers to segment their clients' accounts into separate subsidiaries from the rest of the business. Many leading brokers have started to do this, to reassure clients against a repeat of the Tuffier collapse, where the firm is alleged to have used clients' money in a fruitless attempt to cover its own losses.

The de la Serre report calls for the abolition of turnover tax, between 0.15 per cent and 0.3 per cent depending on the size of the deal. This is seen as a disadvantage against London, where turnover tax will be abolished when Taurus, the paperless trading system, is introduced, and Frankfurt, which abolished the tax in January. Mr de la Serre accepts that the tax is not a decisive disadvantage. "But it is a symbolic sign that French culture still holds that speculation is bad." The Finance Ministry has so far been unsympathetic, no doubt conscious of the FFr2bn or so a year it collects from turnover tax.

William Dawkins

Capitalisation (FFrm)

	October 1991	September 1991	% change
All markets	1,879,277	1,892,641	−0.7
Second market	144,605	145,259	−0.5

Source: Société des Bourses Françaises

Five most active shares

	Trade volume daily average (FFr 000)
CGE	123,134
Elf Aquitaine	98,734
Peugeot	97,446
Suez	93,308
Eaux (Cie Gle)	87,658

Source: Société des Bourses Françaises

Five most active foreign shares

	Trade volume daily average (FFr 000)
Deutsche Bank	4,744
Siemens	4,596
Royal Dutch	4,055
IBM	3,542
Nestlé	3,401

Source: Société des Bourses Françaises

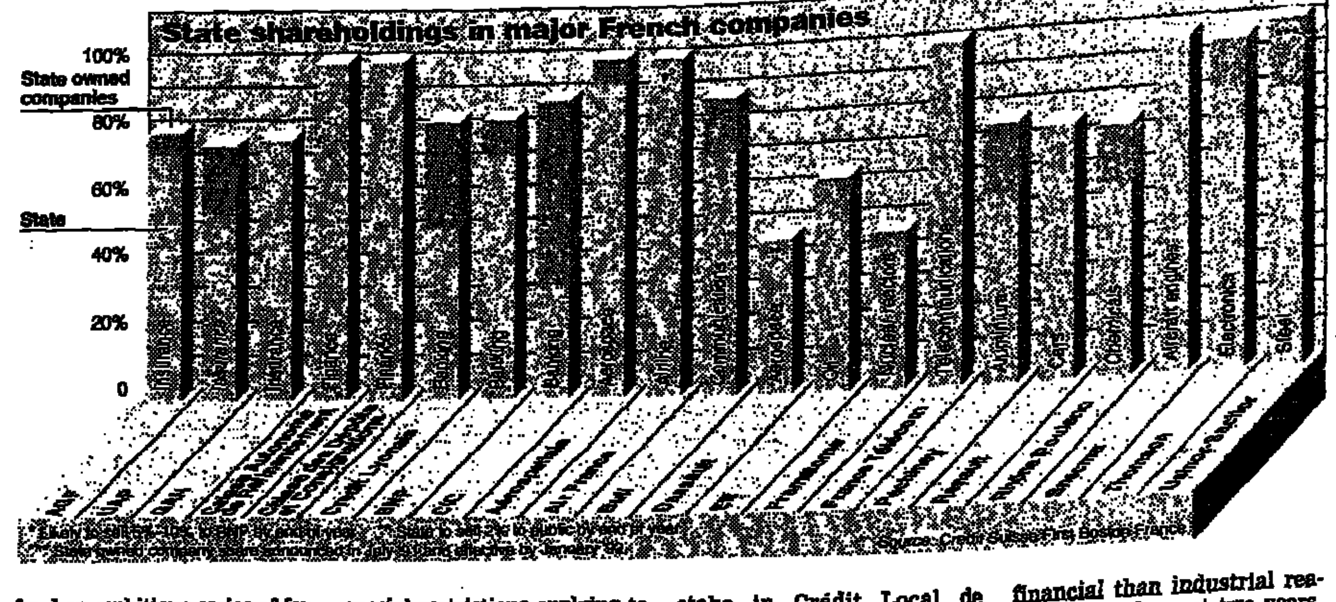
Market transactions (FFrm)

	Oct 1991	Sept 1991	% change	1991 to Oct	1990 to Oct	% change
Main market	54,856	50,091	+9.5	495,303	527,612	−6.1
Smaller shares	322,141	236,635	+36.1	2,683,219	2,569,219	+4.4
Second market	2,095	2,214	−5.4	23,005	42,944	−46.4
Bonds	319,666	233,999	+36.6	2,652,306	2,519,319	+5.3
Shares	57,331	52,727	+8.7	526,409	577,521	−8.9

Source: Société des Bourses Françaises

■STATE INDUSTRY: bosses contemplate Teutonic methods

Awaiting Cresson's plans



THE POWERFUL state industry has never hesitated to borrow good ideas from abroad, whether it be Japanese-style stock control or US investment banking techniques.

The question being asked by industrial planners and managers is whether elements of German-style capitalism can be made to work in France. The debate will have an impact across French industry, given the size of the public sector, which accounts for seven out of 10 of the country's top companies and 11 per cent of the workforce.

The main qualities that the Paris administration is hoping to import from Germany, its biggest trading partner, include the close ownership links between banks and their industrial customers; Germany's enviable consensus between staff and management; and the strength of its apprenticeship and training systems.

However, like President François Mitterrand's latest architectural monument, the national library, the new design of France's public sector is subject to controversy and change. Critics point out that German banks are starting to sell off their industrial holdings and that Teutonic worker consultation cannot easily be transplanted to France's chaotic and divided trade union system.

The latest design will not be clear until next Spring, when Mrs Edith Cresson, prime minister, plans to propose a series of laws to reform the management structure of large parts of state industry and improve worker consultation. Senior executives are understandably anxious, but Mrs Cresson argues that the recent three-week strike at Renault, the state-owned car maker, highlights serious weaknesses in management-employee relations.

Crédit Lyonnais took the process a step further by injecting FFr2.5bn into Usinor Sacilor

Mrs Cresson's eagerness to reshape public sector management is just one example of the clear limits to the reduction in industrial intervention that has taken place since the early 1980s.

The idea of urging state-controlled companies to build European or world champions is still strong, as shown by the outcry created in Paris when the European Commission blocked the takeover of de Havilland, the Canadian aircraft maker by state-owned Aérospatiale and Alenia of Italy. The Commission's veto was "a crime against Europe", says Mr Michel Rocard, former prime minister.

Equally, subsidies continue to be a feature of the French public sector. The government argues that it is simply exercising the rights of any shareholder to support its investments. Yet critics wonder how many private investors would be prepared to pump FFr6bn into Groupe Bull, the ailing computer maker and Thomson, the struggling defence and electronic combine, to name two recent beneficiaries. To be fair to the French government, the Commission did rule only last month that Paris had every right to hand over FFr2bn to Air France, the national airline.

There has been at the same time a measure of liberalisation, seen this year in the radical relaxation in President Mitterrand's 1988 election promise to countenance neither nationalisations nor privatisations, known as the ni . . . ni policy. This was designed to put an end to the destabilising changes caused by the swing from the first socialist government's wave of nationalisations followed by the privatisations of the 1986-88 Gaullist government.

It soon became more of a hindrance than a help to the state sector, due to the need of companies such as the Pechiney aluminium group, the Rhône-Poulenc chemicals producer, and the Usinor Sacilor steel company for capital to fund an ambitious series of foreign takeovers.

The ni . . . ni policy really began to crack when Renault, the traditional crucible of French industry policy, was allowed in 1989 to exchange minority stakes with Volvo, the Swedish car maker, Renault's first private investor since being nationalised just after the war.

The crack became official last April, when the government issued a decree allowing private companies to take minority stakes in state-owned ones, so as to pave the way for more Renault/Volvo-type deals. This is on condition that private investors inject new capital in the process, make an industrial, commercial or financial co-operation accord with the French state company, and providing the state keeps majority control.

The next stage in the government's withdrawal from the ni . . . ni dogma came in late August, when Mr Pierre Bérégovoy, finance minister, announced plans partially to privatise a number of companies to help curb the budget deficit. A passionate if academic internal debate followed, on whether the cash should be used, as urged by Mrs Cresson, for job-creation projects.

Another blow to the old dogma followed in early November, when Mr Bérégovoy, announced plans to relax special restrictions applying to insurance companies. The aim will be to allow insurance companies to reduce from the current 75 per cent to 51 per cent the minimum proportion of voting equity to be held by the government. This essentially extends to the three state insurers, Union des Assurances de Paris, Assurances Générales de France (AGF) and Groupe des Assurances Nationales, the freedoms recently granted to their industrial counterparts.

So just how has the public sector been able to use its new liberties in practice?

There have been no partial mergers on the Renault-Volvo scale over the past year. But the relaxation has paved the way for NEC, the Japanese electronics company, to exchange its stake in a subsidiary of Bull for a 4.7 per cent stake in the group in spite of intense initial opposition from the anti-Japanese Mrs Cresson.

It has given Banque Nationale de Paris (BNP), the largest state-owned bank, the freedom to negotiate an exchange of minority stakes with Dresdner Bank, Germany's second largest bank, expected to be completed soon.

Beyond this, the government has used partial privatisations to sell its existing shares to stock market or institutional investors. Over the past three months, it has announced the FFr1.89bn sale of a 25 per cent stake in Crédit Local de France, a local authority bank; the estimated FFr3bn sale of 24 per cent of Caisse Nationale de Prevoyance, a life insurer; and the FFr2bn sale of a 2 per cent stake in Elf Aquitaine, the oil and gas group.

These partial sell-offs have been condemned by the right-wing opposition on the grounds that they have not so far included any issues of new equity for state-owned companies' own investments. Mrs Cresson's advisers reply that the public sector is entitled to sell new shares to the public whenever it wishes and will do so when stock market conditions allow. Officials add that the proceeds so far will easily cover the FFr5.6bn of state capital grants earmarked for state industry next year (up from FFr4.4bn in the current year).

The idea of urging state-controlled companies to build world champions is still strong

There has been an increase in the reshuffling of ownership within the public sector, in which several state financial institutions have in recent years bought some of the government's shares in industrial companies — usually more for financial than industrial reasons. Over the past two years, for example, the state-owned bank Crédit Lyonnais has taken a stake in Rhône-Poulenc, while AGF has increased its capital by taking holdings in the Total oil group and Pechiney.

Crédit Lyonnais took the process a step further last July by injecting FFr2.5bn into Usinor Sacilor in exchange for a 20 per cent stake. BNP followed a few days later with plans to splash out FFr1bn for a 5-10 per cent stake in Air France.

The suspicion is that these operations are clever ways of raising capital from the state at a time when the budget is under strain and when Brussels is clamping down on subsidies. Both banks argue that they are cementing links with valued clients in just the same way as their competitors. The Commission last month gave the government the benfit of the doubt over the Crédit Lyonnais-Usinor deal and gave its go-ahead for the operation to proceed.

In the meantime, the government's policy to the state sector will continue to follow its twin track; cautious liberalisation on the one hand, with the continued use of subsidies to support essential industrial interests on the other.

William Dawkins


Faraway Finance Ministry, Bercy: 'Not even any hotels for the bosses and their secretaries', said a disdainful taxi driver (page 6)

■MERGERS & ACQUISITIONS: a shift in the balance of power

Small interests find big voice

THE INTERESTS of minority shareholders in France's leading companies used to take a back seat.

However, in the past six months the balance of power has started to swing back in their favour. The Conseil des Bourses de Valeurs (CBV), the body in direct charge of stock exchange regulations, has begun to feel its way towards a tough line on a two-year-old reform of takeover regulations designed to ensure minorities get fairer treatment.

The fast emergence of several large takeovers over the past month has provided a further test of the new rules, which introduced the idea that an investor buying 33.33 per cent of the equity in a company alone or in concert must launch a bid for two-thirds of the business. If an investor acquires more than 50 per cent of the equity, a full bid for 100 per cent is required.

The new wave of deals, with four bids worth a total of FFr13.6bn in November, has galvanised a French merger and acquisitions market, which until very recently was in a decline which reflected the general economic slowdown across Europe. French companies made FFr157.7bn worth of acquisitions in the first nine months of this year, down 33 per cent from FFr234.5bn in the same period of 1990, according to the magazine Fusions & Acquisitions. The number of deals was down 10 per cent to 1,310 in the first nine months.

Mergers and acquisitions advisers argue that the interpretation of the rules is still slanted towards allowing large companies to pursue their strategic interests, rather than towards small shareholders. "There is an increase in awareness that something needs to be done for minorities, but it is not yet the accepted rule that they need to be helped out in all cases. Sometimes, there are over-riding industrial and strategic forces — and it is very rare that an institution will fight to express its unhappiness about bid terms," says one senior merchant banker.

Yet the shift is strong enough to introduce new uncertainty into the costs of launching a bid. It is encouraging French banks to take a close look at their growing industrial equity portfolios to ensure that they do not get unwittingly caught up in concert party actions.

The ground-breaking case in the treatment of minorities came in June, when the CBV ruled that the Bolloré transport and industrial conglomerate must launch a full bid for Delmas-Vieljeux, a family owned shipping company.

No single investor had exceeded the 33.33 per cent threshold. But the CBV reckoned Bolloré had acted in concert with two other investors, a holding company called El Rabha, and Clinvest, the investment banking arm of Crédit Lyonnais, the state-owned bank and the main shareholder in El Rabha, to take control with 59.2 per cent. This cost Bolloré an immediate extra outlay of FFr1.2bn.

A similar issue was raised by last months' FFr2.2bn bid for Wagons Lits, the Franco-Belgian travel group, by Accor, the leading hotel company. Three groups of disgruntled minority shareholders successfully took legal action to force Accor to increase its bid price from BFr8,650 per share to BFr12,500. Accor is appealing but it estimates that the decision could cost it an extra FFr800m should the appeal fail.

The investors' claimed that Accor and Société Générale de Belgique (SGB), the French group's partner in the offer, won control of Wagons Lits in June last year, when they paid the higher price for a 27 per cent stake.

Wagons Lits's small shareholders will certainly have sympathy for their counterparts in Au Printemps, the celebrated Parisian stores group, for which Pinault, the timber to furniture retailing company launched a FFr5.28bn bid for two-thirds of the shares at the end of November.

Pinault has come under widespread criticism from Parisian stockbrokers for not launching a full bid, even though the CBV last week cleared the Pinault bid terms. The CBV excepted Pinault's argument that the 40.56 per cent stake it initially bought in Au Printemps is under the 50 per cent threshold at which a full bid would be triggered.

Analysts point out that the block of shares bought by Pinault carried rights to 56.4 per cent of the votes. Maus-Nordmann, the Swiss holding company which sold this block of shares, confirms this.

Some of the voting rights automatically expired when Maus-Nordmann pooled its Au Printemps shares in a single subsidiary, so as to facilitate the sale, but the French bidder asked for the rest to be cancelled by changing the status of the shares, say officials close to the Swiss group.

Another feature of the recent round of takeovers has been the use of holding companies, a frequent continental European phenomenon, to gain control of industrial businesses. This is the technique being employed by Italy's Agnelli family, which is using its Luxembourg-based holding group, Ifi International, to bid for Exor, a French holding group which controls Source Perrier, the mineral water and cheese group. Originally, Ifint was offering to buy just two-thirds of Exor whose total value is FFr5.6bn at its offer price but it changed its mind at the last moment under pressure from minority shareholders and launched a full offer even though it was not obliged to do so under French takeover rules. But this is still an extremely cost effective way of getting control of Perrier, given that the mineral water company's market capitalisation was more than FFr11bn at the time of writing.

Other French holding companies have been using takeovers to tidy up their unnecessarily complex structures, a tendency which market watchers believe could become more common in the months ahead

Other French holding companies have been using takeovers to tidy up their unnecessarily complex structures, a tendency which market watchers believe could become more common in the months ahead.

The most recent example is last month's FFr4.3bn bid by Saint Louis, the sugar and paper group, to buy out the remaining shareholders in Arjomari-Prioux, the paper company in which it held a 41.42 per cent stake. This is the latest stage in the policy of Worms et Cie, the holding group which controls both companies, of rationalising its so-called cascade structure under which a group exerts influence through a descending series of controlling stakes. Arjomari-Prioux was left as a shell, a redundant layer in the cascade, after it merged its industrial assets last year with Wiggins Teape Appleton, the British paper group.

There are similarities with the recent decision by Suez, the financial and industrial holding empire, to buy out the minorities in two of its development capital units; and Paribas's decision last May to make a paper offer to buy out the remaining shareholders in three cement and building materials groups.

Both Paribas and Suez are carrying out overhauls of their sprawling industrial investments, consolidating control in the activities they consider most important. Indeed, most top French companies and financial institutions are held together by complex webs of cross-shareholdings, suitable for further tidying-up operations of this kind.

WD

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INSURANCE: the extent of the privatisation process remains unclear

Foreign investors remain cautious

LAST month's announcement that the French Government plans to cut the size of its holdings in three state-owned insurance companies raises several issues.

First of all, just how far will the process of partial privatisation lead?

Initial stock market reaction suggested that investors ultimately expect Assurances Générales de France (AGF), Groupes des Assurances Nationale (GAN) and Union des Assurances de Paris (UAP) to move fully into the private sector. But they would be unwise to count on it in the short term. The most being contemplated at the moment is a reduction in the state's holdings to 51 per cent. The second question is whether the insurance companies or the French Treasury, will be the beneficiaries.

The single European market is bound to inspire further change

At this stage it has not been decided whether the state's shareholdings should be diluted via rights issues, to which the government would not subscribe, or whether the stakes should simply be sold. No doubt the companies could all find ways of using the money – but the budget deficit will almost certainly be first priority.

The final issue is how receptive international investors will be to more French insurance company paper. The shares of UAP, GAN, and AGF are all below the prices at which they were first offered in 1990 and 1991 – a problem which may prove particularly awkward for UAP given the sizeable foreign interest at the time of the float. It is more than likely that the government will wait until next Spring, or later, in the hope that equity markets will improve.

Albert: sees the insurance industry as a sort of hybrid

Bébéar: has built up a good acquisitions record

This said, the leading French insurance companies look to be in good health when set beside most of their enfeebled UK rivals.

Competition, to be sure, has been tough in the industrial risks business, notably property, and the mutuals continue to drive home their cost advantage in the large motor sector.

However, the big French companies did not not suffer to the same extent as their UK counterparts from the storm damage of 1987 and 1990; they have not been crippled by mortgage guarantee losses; and they are generally much better capitalised than their British counterparts. UAP's reserves, for example, represent roughly twice its premium income.

Mr Michel Albert, chairman of AGF, depicts the French insurance industry as a sort of hybrid derived from the highly regulated alpine, or Swiss/German tradition on the one hand, and the more flexible maritime, or Anglo-Saxon tradition on the other.

This, he believes, has been a strength in recent years. "When the Single European Act was signed five or six years ago", he writes in his recently published book Capitalise contre Capitalisme,

French insurance companies look in good health when set beside most of their enfeebled UK rivals

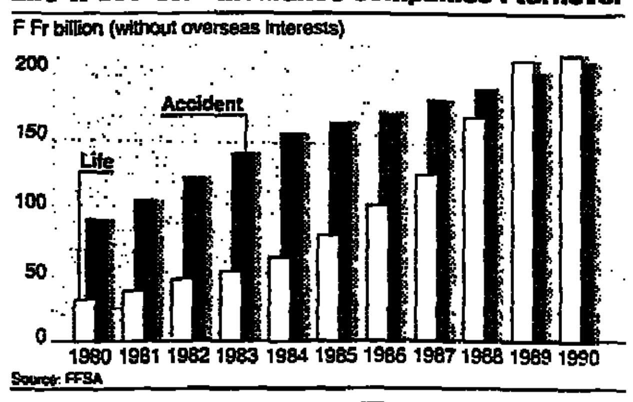
"French insurers were convinced that their companies would not stand up to international competition, notably from the Anglo-Saxon world. As it turns out far from succumbing – and despite a tax regime which is one of the most oppressive in the developed world – French insurers have moved forward on all fronts".

Certainly foreign attempts to penetrate the French market have not met with conspicuous success, and several companies have retreated to lick their wounds.

The more striking feature of the last few years, though, has been French expansionism ahead of 1992. Already some 47 per cent of the assets of UAP are based outside France – of this 90 per cent are in Europe – while AGF aims to receive 40 per cent of its total income from outside its home territory by 1993.

Life & accident insurance companies : turnover

F Fr billion (without overseas interests)



Source: FFSA

Mr Jacques-Henri Gougenheim, a director of UAP, explains that his company considers Europe to be its home market. In the long term, he implies, the real competition could be American and Japanese.

The assumption is that the international strategies of the likes of UAP and AGF are in the best interests of shareholders.

Mr Simon Rudolph, an investment analyst with Morgan Stanley in London, is more sceptical.

"It is all very well planting a flag in each country," he explains, "but foreign insurers in the fashionable growth markets of Spain and Italy are losing their shirts. The strategy may be sound on a 25-year view but it's worth wondering whether this fits in with the time horizons of an institution."

Among the more topical bits of unfinished foreign business are UAP's ambitions in Germany, and Axa's takeover and demutualisation of America's Equitable Life.

Mr Gougenheim admits that UAP is anxious for a more direct relationship with Colonia, the number two German insurer that is controlled by the Suez satellite Groupe Victoire.

Biggest French insurance companies 1990 (consolidated sales [FFrbn])

UAP	97.3
Victoire	58.4
Axa	48.2
AGF	46.0
Gan	33.5
CNP	28.9
Groupama	24.2
Mutuelles du Mans	17.4
Predica	13.2
Athena	12.6
Allianz via Rhin et Moselle*	10.2
Macif	10.1
Concorde-Generali*	9.6
GMF	8.8
Maaf	7.3

Source: FFSA
*excluding turnover of parent company

Negotiations between Suez and UAP are taking place, the market's assumption being that UAP would like to exchange its 34 per cent stake in Victoire for 80-100 per cent of Colonia.

Mr Gougenheim says that a deal may take time to cement, but the determination is clear. "Colonia's origins in the last century are very much tied up with ours," he says proprietorially.

The $1bn capital injection by Axa into Equitable Life of the US provokes strong reactions in the market.

"It is either going to be the best investment of all time or the biggest disaster," says one analyst.

In defence of Axa the company's chairman Mr Claude Bébéar has a good acquisitions record so far – but much may depend on the performance of Equitable's property and high yielding junk bond portfolio, as well as relations between the two companies' middle ranking managers.

GAN, which has a UK presence in Minster Insurance, has been expanding recently with a 49 per cent stake in Unisegoros of Madrid (purchased for about $30m), and the announcement of a joint venture in Hungary.

The feature which most distinguishes GAN, though, is its close link with the banking group CIC, recently strengthened by the increase of its share stake from 56 per cent to 80 per cent.

The jury is still out on "bancassurance" in Europe but GAN looks to be the French player most likely to make it work.

UAP's relationship with BNP has been more tentative – it includes a 10 per cent share stake swap – while AGF at home has opted to use its distribution network to sell a wider range of financial products rather than forge links with a bank.

The single European market, is bound to inspire further change.

The deregulatory reflexes of Brussels policy makers are seen in Paris as likely to intensify the competitive pressures, which AGF's Mr Albert sees as leading to a greater concentration in certain sectors of the business.

The short sightedness of the current generation of risk managers, and the uncertainty of US jurisprudence will be other influences on the industry's evolving structure.

Tim Dickson, London

FRENCH BANKS IN LONDON

A particularly tough time in the City

IT IS probably cold comfort for the British banks but the recession, which has been so damaging to them, has not spared their foreign counterparts.

The big French banks, for whom a London presence is an essential part of their European strategy, have had a particularly tough time in the past two years. As a result, most have decided to cut costs and shed staff, although they have drawn the line at withdrawing altogether.

There are a dozen or so French banks that are active in the London market. Some, like Crédit Lyonnais, crossed the Channel in the last century. Others, such as Crédit Agricole, moved in during the 1980s. Almost all have stepped up their British operations over the past decade fired by the belief that any bank with international ambitions has to have strong links with the City of London as Europe's financial centre.

It is not easy to assess how successful they have been. As far as commercial banking is concerned, most French banks only have a branch status in Britain. This means they do not have to publish their financial results. Furthermore, much of their British business is booked in Paris, so it is difficult to paint an accurate picture of the global scene.

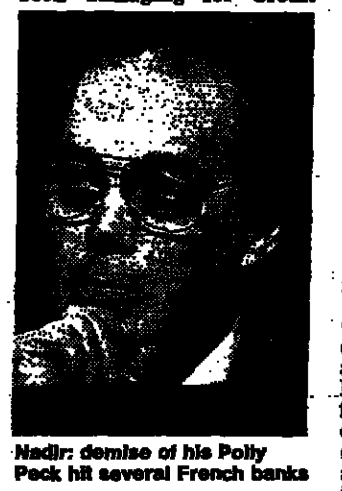
However, the French banks have been hard hit by the big corporate collapses that have scarred Britain in the past 18 months. "We all came here to work in the City as a big international financial centre," says the head of the British arm of one French bank. "But the competition was so intense, that we had to invest in British companies to make our original investment worthwhile."

Some French banks are counting the cost of that change in strategy. The failure of British & Commonwealth, the financial services group, and its computer leasing subsidiary, Atlantic Computers, hit Crédit Lyonnais and Paribas, as well as Indosuez, Crédit du Nord and Banque National de Paris (BNP). Meanwhile both BNP and Crédit Lyonnais were affected by the collapse of Coloroll, the consumer products company.

The demise of Polly Peck has hit Crédit Agricole, Société Générale and Crédit du Nord. While Paribas-Suisse and the Indosuez broker, Carr Kitcat, are among the creditors of Mr Asil Nadir, the disgraced head of Polly Peck.

Crédit Agricole is among the main lenders to Brent Walker, the stricken leisure group. BNP has a small involvement and Crédit Lyonnais was involved in financing William Hill, the betting subsidiary. The collapse of another British leisure group, ILG, affected Crédit Lyonnais, among others.

Dramatic though the effect of these corporate horror stories has been, the French banks have been hounded by a series of less public problems: ranging from the collapse of so many medium-size companies, to the property crisis, and the Law Lords' ruling on local authorities swaps, which has been damaging for Crédit Commercial de France (CCF).



Nadir: demise of his Polly Peck hit several French banks

Fortunately, French banks in London are involved in more fruitful ventures. The money markets and foreign exchange activities are important areas of business. Corporate finance, commodities dealing and providing services to French companies operating in the UK have all given the banks a chance to make money even at a time of recession. Société Générale, for one, says that its operating profits doubled between 1988 and 1990.

Nevertheless, French banks had to make large provisions on their British operations, twice as much as the year before in the case of BNP for example.

Some ended the year in the red, like Credit Lyonnais. Others, such as Société Générale, mustered modest profits. One banker says emphatically, "the fact of the matter is that last year French banks in London lost their profits from the previous ten years".

As for this year, most banks expect their results to be better, but to a limited extent. Crédit Lyonnais, for one, cannot hope to see a real recovery in profits before 1992.

Different banks have reacted in very different ways to these pressures. The most decisive action was taken by Crédit du Nord, a medium-sized bank that is part of the Paribas group. After making provisions of FFr180m for its British risks, the bank withdrew from the domestic market and now works only for its French customers in the UK.

The other small banks are still trying to make a living with niche strategies.

As for the main banks, Crédit Agricole went through a very difficult time last year and was forced to rethink its strategy altogether. The bank, which has been in London since the mid-1980s, is a mutual bank aimed primarily at the agricultural and retail markets, without an international tradition. Being one of the biggest banks in France, it was keen to develop a strong presence in London. As a result it found itself heavily involved with Polly Peck and Brent Walker, as well as Goodman, the Irish group, and the mortgage market.

In the autumn of last year Crédit Agricole decided to take draconian measures by making a provision of FFr1.4bn. Its London staff has been slashed from 118 to 88 and the bank is concentrating on the foreign exchange and money markets, as well as on trying to sort out its problematic loans portfolio. Crédit Agricole plans to resume corporate lending, but not for another two or three years.

Most of the other big banks have been trying to trim costs. BNP has closed two branches out of four and has scaled down its staff by 25 per cent to 350 people over the past three years. The main investment banks, Indosuez and Paribas, are focusing on corporate finance and avoiding traditional lending. Indosuez has reduced its staff from 330 to 220 people in the past three years and Paribas from 250 to 150.

Société Générale claims to be in an investment phase. A new trading room will open in January and the bank plans to hire specialists in areas such as project finance and export financing. The bank has cut back in other areas, so its workforce should remain stable at about 320 people.

Crédit Lyonnais appears to be the most aggressive of the French banks. It is opening branches in an attempt to attract middle-size companies with some international operations as customers. It has opened nine new branches since 1990 thereby increasing its staff from 420 to 500. Crédit Lyonnais insists this investment is part of its overall European strategy and will be profitable in the long term.

Ghastly though the last year may have been, all the French banks insist they are committed to a long-term presence in the London market. Or, as one Crédit Agricole executive put it, "we are here for eternity!"

Patrick de Jacquelot, London correspondent, Les Echos

■PARIS: falling behind in the race to be a top financial centre

A touch more provincial

IN PARIS the worker, or indeed the visitor, is constantly reminded that the city was rebuilt in the 19th century in order to be the centre of civilisation. Part of the ineffable but ubiquitous grandeur that makes up the Parisian urban landscape can be ascribed to the city's noble architecture, wide streets and beautiful vistas. The rest is probably the work of the Parisian *volonté générale*, at least 200 years of aggressive self-confidence.

In some ways, the 19th century was a charming time, and its traces in Paris have a definite appeal. Thanks largely to Baron Haussmann and his successors, the geography of Paris is compact and easy to understand. The public transit system is dense and fairly well arranged, and many of the small details of urban life, such as newstands, restaurants, shops, are pleasing and useful.

Paris was designed to reflect its position as the clear centre of French finance. Until fairly recently, the landscape reflected the power and the glory of the various institutions. At the top was the Ministry of Finance, magnificently located in the Louvre palace. The Bourse had a noble piece of neo-classical architecture, possibly the most noble thing about that institution for much of the past century. Each of the large banks had its own 19th century monstrosity, and almost every leading company had some piece of prime real estate to call home.

Paris has gradually lost out in the race to be top city. Even the French financial establishment has come to accept the idea that Paris is no longer the centre of anything except France, and at best a leader in the second division of world finance. In response to this sad discovery, the institutions of France have taken to treating Paris like just another city in which to operate. Decentralisation and architectural convenience have replaced *gloire* and image.

The Finance Ministry has moved out to Bercy, close to the edge of the city. "Not even any hotels for the bosses and their secretaries", says a disdainful taxi driver.

The Bourse building is almost empty, replaced by computer networks. Many of the largest companies have their headquarters sprawled out over several floors in some building in La Defence, a commercial development which bears an all too strong resemblance to high-rise office blocks almost anywhere in the world.

As Paris becomes more provincial in world scale, it becomes more charming as a place to work. Within the confines of the central business district, no city in Europe or the US is more pleasant to walk in. Even with the dispersion of important institutions, it is easy and not too expensive to get around Paris.

Les Halles, once the city's produce market, has been refurbished and now houses fashion shops and restaurants

Thanks to the effective if unglamorous RER, the express railroad, even La Defense is not much more than 30 minutes away from anywhere in the city. Thanks to grudging but generous public funding, the price of a metro ticket is cheaper than the European average.

Although many Parisians are reluctant to admit it, Paris is starting to acquire the undeniable charms of an important but slightly provincial town. The lunches are a little longer (and the food much better) than in London or New York. The power elite is a bit more philosophical, and perhaps a little more inbred. Some French executives praise the quality of their civilisation, often represented by the morning cafe and other small signs of detente, while they disparage the crude and hectic Anglo-saxon culture. (The French are blissfully unaware of any cultural differences between the Americans and British).

The recent decision to move a few parts of the government bureaucracy out of Paris confirms the suspicion that even the government has given up on the idea that Paris is, by definition, the centre of things. The nation's future leaders, the students of the Ecole Nationale d'Administration, are to be trained in Strasbourg, in the vague hope that they will be Europe's future leaders. Europe has no central city worthy of the name.

On the negative side, it is a large metropolis, ringed by anonymous and often depressed suburbs. A large immigrant community adds chaos and colour to urban life. Crime, pollution, and stress are all at high levels. The traffic, a contributor to the latter two problems, can range from frustrating to impossible, both in and around the city.

Even if Paris has lost the race to become a global centre in finance, it is undoubtedly a first-class world city in other ways. For a leading European city, Paris is not particularly expensive. Most comparisons of the cost of living put Paris in the middle of the European league. Real estate comparisons are difficult, but after several years of sharp increases, Paris is certainly no bargain, especially in prime areas. Both residential and office space are probably cheaper than their equivalents in New York or London, but more expensive than Frankfurt or Brussels. Real estate prices are declining, as yet at a moderate pace.

The average tax burden is relatively high for the single high earner, but relatively low for the fecund family. Social charges are among the highest in Europe, but the social services received are reasonably efficient. The visitor from London will notice that the meals and hotels offer excellent value for money.

The most distinguished visitors, the international financial types at home in first-class hotels around the world, find Paris one of the most agreeable cities anywhere in which to stay.

The city set the standard for sophistication for several centuries, and remains arguably the most civilised place in Europe to pass a few days. To work there is little less glamorous, but still well above the mundane.

Edward Hadas,
analyst,
Morgan Stanley

The author lived in Paris for two years but now resides in Orne (200 kilometres away) and works in London

RIGHTS OF RESIDENCY

Byzantine processes

IF THE idea of living and working among Baron Haussmann's boulevards appeals, the next step – having found a job and a place to live in Paris – is to embark upon the Byzantine process of securing your right to residency in France.

This means getting your sticky fingers on a *carte de séjour*, or residency permit. The trials and tribulations of doing so are standard fodder at ex patriate dinner parties in Paris. The procedure, bureaucratic though the French authorities may be, is actually far simpler than some of the anecdotes suggest.

You can stay in Paris for up to three months without any formal status at all. After that you must, unless you want to run the risk of anything from being booted out of the country to tickings off from the police, apply for a *carte de séjour*.

The usual procedure is to write to the *Préfecture de Police* on the Ile de la Cité for *carte de séjour* and a work permit. Alternatively, if you have a job, you could contact the Ministry of the Interior to get formal working status and then ask for residency.

The ritual is usually simpler for EC citizens. But whatever your nationality, if you have a job and somewhere to live, don't have a criminal record and are willing and able to answer all the probing questions about your own finances and even those of your parents at Ministry of the Interior interviews, everything should go smoothly. You can then concentrate on all the other labyrinthine procedures involved in living in France such as swapping your old driving license for a French one.

If you don't have a job or a home, then things may be different – but that's another story.

Contact addresses:
Prefecture of Police, 7 boulevard du Palais, 75004 Paris
Tel: 42.60.33.22
Ministry of Interior, place Beauvau, 75008 Paris
Tel: 49.27.49.27
EC Information Service, 61 rue des Belles Feuilles, 75016 Paris
Tel: 45.01.58.85
Customs Information Service, 192 rue Saint Honoré, 75001 Paris
Tel: 42.60.35.90

Alice Rawsthorn

■PROFILE: Pierre Bérégovoy

Political architect

THE FATES of Mr Pierre Bérégovoy, finance minister, and the French economy have an unusually close link in foreign investors' eyes.

Mr Bérégovoy, nick-named super-Béré by one French satirical newspaper, is seen as the architect of France's policy of competitive disinflation. The extent to which he is held personally responsible for making sure the government sticks to its firm budgetary and monetary controls is underlined by the nervous gyrations that hit foreign exchange markets when one of the sporadic rumours of his resignation, always quickly denied, resurfaces.

Pierre Bérégovoy: a firm line on budgetary policy

His hand was considerably strengthened in the reshuffle that brought Mrs Edith Cresson to power as prime minister last May, though relations between the two are sometimes strained.

Mrs Cresson had hoped to mark her arrival by increasing the powers of the decreasingly influential industry ministry. The aim was to give the ministry control over part of the treasury, so as to give it a say over the amount of capital allocated to the public sector. This would have allowed Mrs Cresson to indulge fully her fondness for industrial intervention, against the economically liberal Mr Bérégovoy, who believes in keeping the state's role in industry to a minimum.

In an impressive countercoup, Mr Bérégovoy managed to obtain precisely the opposite result, no doubt playing on his indispensability. He demanded and obtained the merger of the entire industry ministry with the finance ministry, so tightening his grip on industrial spending and enabling him to keep a close eye on Mr Dominique Strauss-Kahn, Mrs Cresson's appointee as new industry minister. To the dismay of its civil servants, the industry ministry had to move from its elegant 18th century mansion on the left bank to Mr Bérégovoy's utilitarian modern headquarters at the Quai de Bercy.

Mr Bérégovoy was given control of telecommunications and foreign trade policy, making him by far the most powerful French finance minister in recent history.

He is a former metal worker of Ukrainian descent, one of the few really working class members of the French government and is not one of the Ecole Nationale d'Administration-trained elite who conspire to run France. Yet his staff is packed with some of the most brilliant minds in the French civil service and Mr Bérégovoy makes full use of them.

The existence of Mr Bérégovoy's powerful machine explains why some of Mrs Cresson's industrial policy pronouncements have so easily been reversed. Her anti-Japanese warnings, for example, have been followed by the entry of NEC, the Japanese electronics company, into Bull, the state-owned computer maker, and by an explanatory trade mission to Tokyo led by none other than Mr Strauss-Kahn, industry and foreign trade minister.

It explains partly why Mr Bérégovoy has been able to hold a firm line on budgetary and economic policy. This is in spite of pressure from senior socialist politicians such as Mr Lionel Jospin, education minister and official number two in the government, to drop rates and raise state spending to stimulate the economy. "I will never be the minister of devaluation," he is fond of saying.

True, Mr Bérégovoy dropped interest rates in October, a move seen as ill-advised by many economists and which was followed by a sharp fall in the franc against the D-Mark. Yet a month later, Mr Bérégovoy raised rates again, proving that his hand is still firmly on the controls.

■CURRICULUM VITAE
Born December 23, 1925; metal worker and milling machine operator, 1941-42; railwayman, 1942-50; technical sales agent, 1950-51; founding member of autonomous Socialist Party, 1958; begins career as management assistant in state-owned gas industry, leading to special adviser at Gaz de France, 1978; member of Economic and Social Committee, 1979-81; president François Mitterrand's secretary general, 1981-82; social affairs minister, 1982-84; finance and economy minister, 1984-86 and from 1988.

William Dawkins

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FINANCIAL TIMES SURVEY

ANDALUCIA

Travellers' tales; farming; Granada PAGE 2 ● Seville; Malaga; politicians PAGE 4

Gilt-edged poverty

Money is being poured into Andalucia in anticipation of next year's Seville Expo and the 500th anniversary of Columbus's discovery of the Americas. But brand-new roads, railways and buildings will not be enough to cure the deep-seated economic weaknesses of this romantic region of Spain, writes **Peter Bruce**

IF ANDALUCIA were to come adrift from Spain and float off into the Mediterranean, it would become one of the West's poorest nations.

It has a disposable income per capita of around $5,500 a year. Yet it is also one of the world's most tenderly cosseted regions – the physical and spiritual home of many of Spain's young Socialist leaders, including Prime Minister Felipe Gonzalez – and in the past four years has had about $8bn spent on it in preparation for the 1992 Universal Exposition in Seville.

Without Andalucia, Spain would also be a very different country. Wise Spaniards suggest that they derive their tolerance and liberalism from the Andalucians, the last people in Iberia to benefit from the enlightened dictatorship of the Moors.

It was Andalucia that delivered Spain to Mr Gonzalez in 1982 and its huge vote saved him in 1986 when he narrowly won a referendum to remain in Nato. And whenever strong and separatist-minded regions such as Catalonia or the Basque Country press Madrid for more powers, it is Andalucia that calms the waters and holds the Spanish body politic together.

Although Barcelona is to host the 1992 Olympic Games next summer, *Andalucia will be the focus of Spanish* attention next year to celebrate the 500th anniversary of Christopher Columbus's voyage to discover the Americas.

Thousands of kilometres of sparkling new roads are beginning to criss-cross the region and a new high speed train line will link Seville to Madrid. Seville has a new airport, railway station and opera house. The charming old capital's crumbling infrastructure is being revitalised.

In the middle of the Guadalquivir River that flows past Seville is the once marshy and almost deserted island of Cartuja.

Today it is home to the most adventurous, expensive and, probably, last collection of late 20th century architecture as more than 100 extravagant pavilions rise up for the start of the Expo next spring.

When the party is over next October, most of the buildings will become a centre of learning and high technology investigation in an effort to help Andalucia finally shake off its image as just a romantic, sunny holiday resort with little more to offer than long beaches, good sherry, old castles and large tomatoes out of season.

Whether this will work is another question. Andalucia is stuck with its traditional earning activities (tourism and agriculture) and a worsening downside. It accounts for more than half of Spain's population growth, it is running out of money and where it boasted an unemployment rate of just 3 per cent 30 years ago, about 24 per cent of its active population is now unemployed.

That is well above the national average despite that fact that the holiday industry in Andalucia is one of Spain's biggest sources of revenue. So the 1992 Expo and its aftermath is vitally important to the region.

There is no lack of optimists. "Expo is already working for Andalucia," says the region's socialist president, Mr Manuel Chaves. By that he means the money already spent on pre-Expo *infrastructure. What happens after* 1992 is the problem.

"Nineteen ninety three is very worrying," concedes a senior government official in Seville. "Andalucians do not believe this pace of development can continue and the problem is making people believe that we have a future after Expo."

Especially worrying is the thought that after Expo is over, transfers of funds from Madrid will dry up. The Seville government is trying hard to promote new worker training programmes and it has recently established a Pta10bn programme to promote new business start-ups.

The authorities and the people already know that the developing world is littered with failed attempts to encourage development by throwing infrastructural spending at a region.

Andalucia's big problem is that even if it is left with modern technical resources after Expo, there may not be Andalucians to take advantage of them.

The region has little industrial tradition. More than 60 per cent of its working population is employed in service industries, mainly in tourism, and where agriculture used to be a safe haven for a large uneducated and often illiterate mass of people, Spain's entry into the European Community has severely cut the number of jobs available. Today it is estimated that some 300,000 people live directly off subsidies paid to unemployed farm workers.

That means more than 3m people are indirectly dependent on these subsidies and it is only because they exist that the socialists have been able to hold firmly on to the region.

In local elections last May, however, that hold seemed to waver as the socialists lost control of Seville to a conservative coalition although the overall socialist vote in the region increased.

The sight of a non-socialist mayor *taking the 1992 honours in Seville will* be a bitter pill for Prime Minister Gonzalez to swallow and it has given many opponents new heart.

"It is like cutting telephone lines," says one. "If Madrid can no longer call up and control the mayor of Seville who will not then be able to call up and control the mayor of an even smaller satellite, we are getting somewhere."

If Expo and the 18m people who are expected to come and see it do not serve to revitalise and reorientate the economy, Madrid has a major problem on its hands. Already, central government budget difficulties are being felt in the region.

Delayed transfers to finance health and other regional services have left Andalucia with an accumulated deficit of some Pta70bn since 1975 and the region has been forced to create new debt in the commercial markets. Next year alone the authorities fear they may have to go to the markets for up to Pta50bn.

In the midst of this accumulation, *the region finds itself having to sup*port the central government in its efforts to fight demands from healthier regions for greater fiscal autonomy. Catalonia, for example, wants to be able to manage the taxes the central government raises in its region. But if that were to be extended to all of Spain, Andalucia would be left with less than it gets from Madrid now. It simply does not have the ability to generate the funds it requires.

"We are finding it increasingly difficult to attract loans from financial institutions," says one official. "Even from Andalucian banks."

Financing is the crux of the region's problems and there is little reason to believe that a new high speed train or a new airport – built to take three times more passengers than Seville can reasonably expect to welcome in the next decade – are the answer.

Certainly, if the high speed rail line had not been ordered in the spirit of 1992, it probably never would have been. But it is almost inevitable – *and probably unfair – that it will* come to be seen as a white elephant while the rest of Spain has no high speed link with the rest of Europe.

It seems unfair, too, that it will be Andalucia that will take the blame for not making sufficient use of the resources showered on it. Any blame for raising unattainable expectations rests squarely with Madrid and it is Andalucians who, once they have had next year's party, will have to deal with the aftermath.

That is when the liberal and creative traditions that have left the region rich in soul, in romance and the resources that attract millions of tourists each year, will once again have to save the day.

Isidore Taylor ca 1830

Alhambra courtyard: a gentle influence on all Spain

ECONOMY

It has wings, but will it fly?

AFTER THE billions of Expo '92-linked pesetas that have been poured into Andalucia the hard part begins, writes **TOM BURNS.**

Building motorways, enlarging airports, laying down high speed train tracks and establishing sophisticated telecommunications networks was the easy part. Now Andalucia has to do something with its colossal Christmas stocking.

It is a tall order. Andalucia has been handed on a plate the best infrastructure that money can buy and hostile cynics say it is as if a complex personal computer had been given to an illiterate.

Andalucia is second only to Extremadura, its backward neighbour on the North West, as the most underdeveloped area in the country.

Its per capita GDP last year was 54.4 per cent of the EC average against a national average of 76.7 per cent. The Madrid region, by comparison, was at 99.1 per cent of the EC mean.

Alfonso Pajuelo, the Andalucia government's director general of economic planning, says the area has to make a pragmatic break with past inertias; it must summon up all its energy to manage a transition between the "huge investment effort" of the immediate past and a "modernising phase" that will mark the immediate future.

This, in broad lines, is the underlying theme of a weighty 1991-94 Andalucian Economic Development Plan, to which Pajuelo contributed, that was unveiled at the end of October. The Plan's "basic priority" is to "modernise Andalucia's productive system" and it sets aside Pta80bn over the four years to aid the creation of new companies and the technological overhaul of existing ones.

One of the Plan's sections discusses the need to encourage a business-orientated culture in Andalucia and allocates funds for training future managers.

Pajuelo calls this "a new philosophical approach" to economic planning in the area. Previous policy papers had not gone beyond recommending schemes to raise the area's low level of skilled workers.

Leocadio Marin, who is in charge of the Andalucia government's agricultural department and is one of the senior figures in the area's ruling Socialist party, echoes the modernising, opportunity-driven sentiment in a more radical manner: "I'm not interested in landowners, I want agricultural businessmen."

Marin has quietly shelved an agricultural reform legislative package that envisaged the expropriation and distribution of underused land.

This was a totemic programme for the left but Marin now says "the problem is not who owns the land but what it is producing, for what markets and with what added value".

Unsurprisingly the conservative Partido Popular in Andalucia has accused Marin of jumping on to its political platform.

The main problem, Marin says, is that there are 60-odd towns in Andalucia, each with a population of more than 20,000 where more than 50 per cent of the inhabitants are mostly hired hands on large, currently unproductive, holdings.

Despite the size of such locations they are by no standards what the EC calls "rural cities" and they require bountiful structural funds from the Community in order to build up industry and services.

Pajuelo's concern is that investment infrastructure should not dry up after the 1992 bonanza. It is a legitimate worry.

The road building pro

Continued on page 2

ANDALUCIA 2

Generations of eminent literary travellers, writes **Tom Burns**, have fallen under Andalucia's hypnotic spell

Moorish splendour that bewitched the young Disraeli

THERE ARE PLANS afoot at Seville's recently inaugurated Teatro de la Maestranza opera house to have an annual season built around works – Don Giovanni, the Barber of Seville, Carmen – associated with the city. Benjamin Disraeli would have loved the idea.

Writing to his sister Sarah as he toured Andalucia in the summer of 1830, the future British Prime Minister waxed lyrical about how "Figaro is in every street and Rosina on every balcony".

Disraeli, who was then 26 years old, had caught a bad attack of the Romantic Spain disease and was determined to pass on the infection. "Think of this romantic land covered with Moorish ruins and full of Murillo. Ah that I could describe to you the wonders of the painted temples of Seville, ah that I could wander with you amid the fantastic and imaginative walls of [Granada's] delicate Alhambra!... I thought that enthusiasm was dead within me and nothing could be new .... It is all the Sun."

A year earlier Washington Irving, then a junior American diplomat, had travelled from Madrid to Granada where he occupied relatively comfortable rooms that the city's solicitous authorities had prepared for him in the Alhambra itself. In 1832 Irving spread the Romantic fever to a wider public when he published "Tales of the Alhambra", a bestseller that Disraeli, back in England, must certainly have read with special delight.

Irving wrote that the "palace of the King" had decayed into a general dosshouse, the "nesting place of the beggar". Granada's down and outs inhabited the more ruined areas of the Alhambra and whenever a wall or a ceiling collapsed "some tatterdemalion family would become joint tenants with the bats and owls ... and hang their rags out of ... the loopholes and windows".

But this did not concern the American diplomat and author in the least for in Spain "poverty is no disgrace. It sits upon (the Spaniard) in grandiose style, like his ragged cloak. He is an *hidalgo* even in rags."

Théophile Gautier arrived in Granada in 1840 and the four nights he spent camping out in the Alhambra's Court of Lions were "the most delicious moments in my life". His furniture consisted of a mattress, a copper lamp, and earthenware jar and "a few bottles of sherry which we set to cool in the fountain".

Alexandre Dumas, who followed Gautier to Andalucia six years later, wrote up Southern Spain as "a gay, lovely land with castanets in her hands and a garland on her brow". He viewed Granada as "a sleepy maiden resting in the sunshine on a bed of moss and bracken, ringed round with cactus plants and aloes".

In Seville, Dumas "discovered" the tobacco factory and "1,300 pretty young work-girls all smoking in the street like veterans or chewing tobacco like old sailors". Thus Prosper Mérimée (a would-be Dumas) created Carmen, which Bizet would put to music, and romanticism reached new heights.

Lord Byron, who in 1809 had visited Cadiz – "the most delightful town I ever beheld" – had already dwelt on the allure of Andalucian women but it took an Italian to go properly overboard.

When visiting Seville, which he considered "the Spanish Athens, the mother of Murillo," the traveller Edmondo de Amicis, Bizet's *Habanera* no doubt ringing in his ears, looked in on the tobacco factory employees. Seville's women, he concluded "really seem created on purpose to be seized, bundled up and hidden away, so small, light, plump, elastic and soft are they. Their little feet could be got into your coat pocket, you could lift them by your waist as you would a doll."

Fandangoes and flamenco, Murillo and Moorish ruins, haughty poverty and amiable indolence – "none of that frenzied restlessness which vexes people of the North," wrote an approving Gautier – breathtaking landscapes and awe-inspiring women became the set images of Spain. But in reality they were the set images of Andalucia.

It was in the South that the whole exhilarating Spanish canvas came alive and it was there that the 19th century travellers hurried, half hoping to meet a bandit on their way. Richard Ford, whose weighty mid-century tome, "Handbook for Travellers in Spain", established his reputation as the most perceptive and readable of the I-went-to-Spain writers, travelled widely around what he termed "the most romantic, racy and peculiar country in Europe" but he lived in Seville and used Granada (the Alhambra, naturally) for summer breaks.

Ford's protégé, George Borrow, author of "The Bible in Spain", sold Protestant literature all over the country, but it was Seville, for all its baroque popish pomp, that won his heart: "Oft have I sighed that my fate did not permit me to reside in such an Eden for the remainder of my days," he noted wistfully when he eventually settled down in Lowestoft, Suffolk.

British historian David Mitchell who has admirably compiled the wideranging output of Spain's foreign visitors ("Travellers in Spain", *Cassell*) takes the whole enthusiasm forward to the eve of the package tour stampede when Andalucian arcadia, as far as the Costas were concerned, endured the dual assault of high rise developers and lager louts. Even the Bloomsbury group got a look in.

Dora Carrington, Lytton Strachey's adoring hanger-on, reported immediately after World War I that on a South from Granada sojourn she had seen "sights one hardly dreamt of, and of people so beautiful that one quivered to look at them". The sentiment was echoed by a very different woman, Rose Macaulay, who shortly after World War II wrote that Spain "grows Roman walls and basilicas and 10th century churches like wild figs" and had retained "a wild virgin quality".

Laurie Lee, a veteran of Spanish walkabouts and an unstinting Andalucia aficionado, believed in the 1950s that nothing would alter the Spain he had first known in the 1930s. Spaniards would remain "unawed" by modernity, "their lips unstained by chemical juices, their girls unslacked, their music unswung".

He was wrong, of course. Modern day Carmens, who long ceased to chew tobacco, smoke the stuff in US filter-tips and twitch to rap as much as to handclaps and the current rage of Seville, where nobody wants to be poor, is a British store that locals call "Mahranthpenther". Expo 92's space age city is the new *Alhambra*. At least there is the opera project to evoke the romantic times past.

Tom Burns on how prosperity came to the 'badlands' of Almeria

A fruit and veg bonanza

THE PROVINCE of Almeria, Andalucia's most easterly area, was in the 1960s a favoured location among producers of "spaghetti" westerns. Currently cucumbers are being exported instead of Clint Eastwood and fistfuls of D-Marks instead of dollars are at stake but the wild west feeling about the place is now decidedly for real.

It is said that in El Ejido, 30kms south of Almeria, men gamble away their women when they have an unlucky run. It is an architectural horror of a town which has grown from 1,000 to 60,000 in little over 20 years and it reeks of money.

There are far more expensive cars double parked outside El Ejido's bars and its banks (the town had 16 bank branches at the latest count and almost as many car dealers) than there are in the fancy country club developments on Madrid's northern outskirts.

And it is tough. El Ejido's mushrooming plutocrats, with their big bank accounts and bigger cars, have calloused hands, strong backs and bad teeth. They rarely seem to change out of the denim trousers and the check shirts that they don when they are working for hours on end on their smallholder plots.

The holdings, an average of two hectares per family, are the source of El Ejido's gold rush ethos. Each allotment is a plastic coated hothouse that intensively cultivates more than a dozen different vegetables as if they were so many giant beanstalks. For a good 20 miles south of Almeria, the four mile coastal strip between the Mediterranean and the barren, lunar looking mountains of the Gador sierra, there is plastic as far as the eye can see.

"Our only competitors in volume, quality and service are the Dutch. We have overtaken the French and the Italians," says Gabriel Barranco, chief executive of Agroponiente, one of the major clearing houses of El Ejido's produce. Created in 1987 Agroponiente raised its net profits by 70 per cent last year to Pta350bn.

Every morning, about 400 smallholders drive their vegetable-laden vans to Agroponiente's two huge warehouses for a daily, electronically-run "Dutch" auction. Outside buyers and those employed by Agroponiente sit at desks as if they were in a bingo parlour, their eyes glued to the screen and a finger poised over the desk's button to halt the price and claim the lot under auction.

Under this system, the company sold Pta7.5bn worth of produce last year, a 40 per cent increase on the previous year's turnover. Some two thirds of the produce sold at the auctions is packaged by Agroponiente and nearly half of it is exported, reaching the supermarkets within four days of reaching the warehouses.

At Agrimurji, a second big El Ejido enterprise that was also set up four years ago, the system is different. The company is owned on a cooperative basis by 79 smallholder members and a further 350 local farmers have an associate status who have not made the Pta4m capital outlay to join the cooperative and pay instead a processing fee. Agrimurji guarantees a price to its farmers, employs a team of horticultural experts to advise them, buys seeds and fertilisers, and directly packages and distributes the produce.

"Our job is to produce what Europe produces at a time when Europe cannot climatically do so," says Agrimurji's manager Juan Carlos Petit. This is the underlying agricultural philosophy of the whole area. The harvesting cycle is geared to Europe's cold months when Almeria's balmy climate – the area has 3,000 hours of sunshine a year and an average annual temperature of 18 degrees Centigrade – makes up for Holland's technological muscle.

The winter cultivation fine tuning means that more than 80 per cent of the 80,000 tonnes of vegetables that the Agrimurji cooperative processed last year bypassed the domestic consumer entirely and was transported mostly to Germany. Vegetables that the Spanish housewife rarely sees, such as long "Dutch" cucumbers, "cherry" tomatoes and bright yellow peppers are harvested in abundance under the area's vast expanse of plastic.

The transformation of Almeria into Europe's winter market garden is the greatest success story of Spanish, let alone Andalucian, agriculture since the war. Between 1980 and 1990, land under cultivation increased by 10 per cent and the volume that the farmers produced rose by 40 per cent. And it is precisely now when the area is prospering beyond its dreams that tough questions are asked about the future.

Jeronimo Molina, the chief economist at Almeria's Chamber of Commerce, argues that out of the five factors – climate, water, land, labour and capital – that fuelled Almeria's growth 20 years ago only the climate remains unchanged. Water is increasingly in short supply, land is now virtually fully occupied and the soil is becoming exhausted. Labour costs have spiralled and capital is as expensive as it is necessary.

Ashley Ashwood

Fistfuls of D-Marks: peppers being force-grown under plastic in Almeria

Water is Almeria's major problem, the main limitation to its development. In the early 1980s a persistent drought caused incipient salination in the area's underlying water shelf and set alarm bells ringing. The problem is soluble if the Trevelez river in the neighbouring province of Granada is rerouted towards Almeria but feasibility studies, apparently successful, have raised an outcry in Granada and the project has been shelved for the time being.

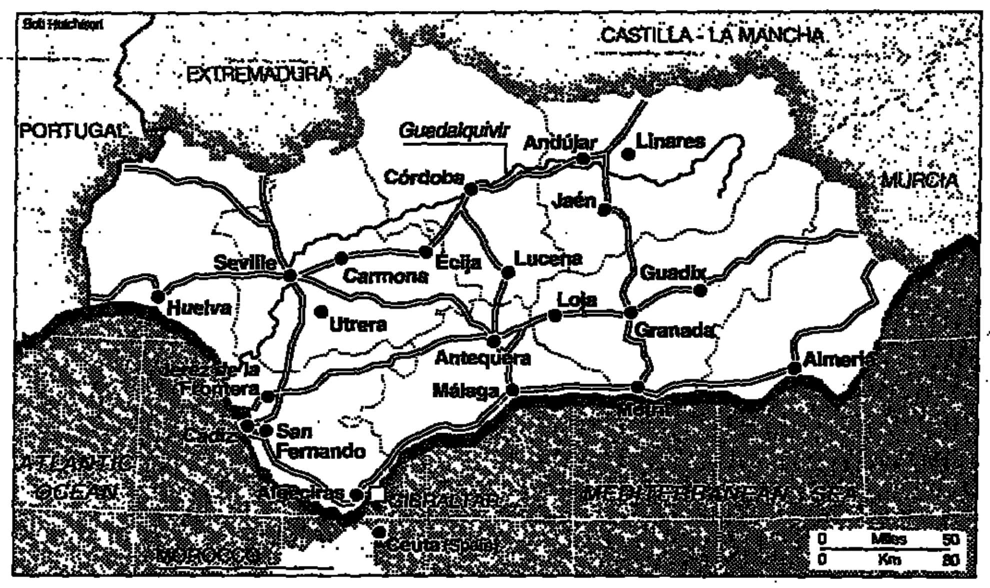
Meanwhile, soil erosion and the high incidence of soil diseases brought on by intensive cultivation can only be overcome by major investment in advanced agricultural processes such as hydroponics, the system of cultivating plants without soil through water impregnated with nutrients. "Our challenge is to incorporate capital and to avoid the easy option," says Molina.

The simpler and, in the short term, cheaper alternative is to maintain Almeria's agriculture as a labour-intensive industry. Gradually the original smallholders, the majority of whom are immigrants from other parts of Andalucia, will be replaced by hired labourers from North Africa because the second generation of local farmers is less inclined to spend long, sweaty hours bent double inside the plastic hothouses. For Almeria such a course would be the equivalent of shooting itself in the foot. Eventually, the cultivation would shift to Morocco where labour driven enterprises continue to make economic sense. The hothouses, a rudimentary wood and chicken wire structure sheathed in plastic, can be set up anywhere with constant sunshine and adequate water. Almeria, where labour costs are increasing at 8 per cent a year, requires a qualitative leap away from the Third World and towards Dutch production methods.

Capital is also required to whittle down Almeria's heavy dependence on seeds supplied mainly by Holland but also by France and Israel. It is estimated that the local agriculture, which has no research and development of its own, spends more than Pta2bn in royalties. Almeria should be forging agreements with multinational research centres in order to transfer an element of horticultural technology and, in particular, to boost research into the seeds best suited to its environment.

The problems do not end there. Juan Colomina, an executive of Almeria's Exporters Association, believes that far greater coordination is required among the area's producers and that, ideally, Almeria's 24-odd varieties of vegetables should be exported under a single trademark much as occurs with the produce of Holland. Despite the emergence of companies such as Agrimurji and Agroponiente, production remains atomised at a time when demand from the big European retail chains is increasingly concentrated and able to dictate its own terms.

Unless such issues are soon addressed El Ejido's current confidence could begin to erode. Almeria province is elsewhere littered with wild west ghost towns, tattered movie sets from whence the good, the bad and the ugly galloped into their last sunset.



Tom Burns discusses Granada's 20th century influence

Music that filled the world

WHAT DOES Granada, for so long Andalucia's cultural powerhouse, do when Seville, on the strength of its Expo '92 extravaganza, acquires an orchestra and an opera house and refurbishes half a dozen dilapidated palaces to serve as art and drama centres?

It does the intelligent thing which is to concentrate on what Granada and only Granada has.

This does not mean falling back on the Alhambra and on the Generalife gardens, and on the Cathedral and on its adjoining royal chapel where Isabel and Ferdinand, the *Reyes Catolicos*, are buried.

The architectural highlights certainly provide a more than helpful and exquisite setting but the quintessence of Granada has to do with tones, rhythms, suggestions and moods. That is why Granada is very sensibly starting to concentrate on its foremost 20th century sons, the poet Federico García Lorca and the musician Manuel de Falla.

The project becomes really ambitious as it seeks to create what its sponsors call "common cultural spaces" that incorporate the city's cultural heritage with arts movements elsewhere. The most advanced of these initiatives may be surprising to the uninitiated for it aims to twin Granada with Paris but it is an entirely plausible venture and indicates the scope of the new thinking and sensitivity that is afoot in the city.

Lorca lore – a favoured topic among foreign PhD students – has a momentum of its own. But it is Falla, who was born in 1876, moved to Paris when he was 29 and returned to his birthplace seven years later, who is the major intercity link.

The Paris network put nerve and sinew on to Falla's musical talent. Through the virtuoso Spanish pianist Ricardo Vias, who premiered much of Claude Debussy's work, he met Debussy.

Falla's circle widened to include Maurice Ravel, Igor Stravinsky and Sergei Diaghilev who later asked him to write the Three Cornered Hat and launched it in London in 1919.

The key point in this particular story is that Falla gave to his Parisian friends as much as he obtained from them and this is the nexus of the link.

Falla was too much a Spaniard, and specifically a *Granadino* at that, to be wholly overcome by the impressionist movement.

But he learnt profoundly from his peers, who were reinventing the language of music, and he lent to them what he knew from birth: the authenticity of Spain's folk music and in particular the idiom, the texture and the pace of his native Andalucia.

Falla returned to Granada brimming with confidence and able to complete his Nights in the Gardens of Spain, the finished result of the three nocturnes that he had worked so hard on during his Parisian sojourn.

Ravel, through Falla and through Albeniz, who likewise "exported" Spain in compositions such as the Iberian Suite, had already been inspired to compose his Rhapsodie Espagnole and *L'Heure Espagnole*.

Jorge de Persia, an Argentine-born music historian in his mid-forties, who is the director of the city's Falla Institute and Archive, where there are some 30,000 of the composer's papers awaiting classification, believes passionately in the fruitful interaction between the ancestral mood of one city and the pre-World War I inventiveness of the other.

Granada has bus-loads of tourists disembarking to gawp at Sacromonte's gypsy caves, and at the 25-odd opulent courtyards that make up the Alhambra's palatial complex. But it is also a long standing university town with easily the most prestigious faculties in Andalucia. In the 1960s it boasted Spain's best music festival.

The festival has since declined and it is now, under new direction, working to recover its former appeal in conjunction with an international music course linked to the Falla Institute. The city has as much potential to be an arts centre as anywhere else in Europe and appears determined to occupy such hallowed ground.

The "orientalism" of Granada remains intact. It is what Falla, who had the habit of handing out postcards of his home town, showed off to his Paris friends, to the Impressionist painters, to the symbolist poets, to his fellow composers and to the Russian Ballet.

The Falla institute's de Persia believes that what occurred in Paris before World War I cannot be fully understood without reference to Granada.

Seville cannot claim a fraction of that.

Will the economy take off?

Continued from page 1

-gramme is a case in point for it has been centred on Seville and mirrors the Madrid-based national highway network in which the main roads fan out of the hub of the Spanish capital as if they were spokes of a wheel.

Seville now is linked by dual carriageway to Cordoba, Huelva, Granada and Cadiz but the secondary roads drawing together the rest of Andalucia have largely remained untouched.

Road communications in Malaga, Andalucia's tourism money spinner, and in Almeria, its agricultural profit centre, are appalling. Investment has homed in on Seville and tended to ignore a more sober assessment of the area's development requirements.

If there are gaping holes in the area's infrastructure there is also an arguably excessive confidence in what is already in place. There is in theory enormous potential in the information technology that Andalucia has acquired but Pajuelo realistically cautions that the business park that will remain in Seville after Expo '92 and the technology park that is nearing completion in Malaga are "rather long term projects".

A number of multinationals have already signalled that they are remaining on the Expo site after the fair is over and Malaga has already induced Hughes Microelectronics to produce sophisticated components in its Tech park. The state-owned aerospace company Casa is developing carbon fibre avionics at its plant on the outskirts of Seville.

Such developments suggest that Andalucia can skip a few hundred years, become instantly computer literate and move into the contemporary world.

But Andalucia would not be what it is were there not, for example, at the same time a substantial group of rural anarchists, landless labourers to a man, woman and child, who live on a 70 hectare commune, 100 kms south of Seville, called the *Tierra y Libertad* (Land and Liberty) cooperative.

"They share everything," says agriculture minister Marin, scarcely repressing a shudder. "If a man needs a new pair of jeans the community's assembly has to approve the purchase with a show of hands."

That world, with its roots deep in the Andalucian's libertarian culture, has nothing to do with "modernising phases", and least of all, with "agricultural businessmen".

HIGH TECH FOR THE ANDALUSIA OF THE 90'S

A DECISIVE INITIATIVE ENCOURAGING BOTH SCIENTIFIC AND TECHNOLOGICAL INNOVATION, MAKING IT COMPATIBLE WITH LOCAL AND REGIONAL DEVELOPMENT, IS SEVILLE'S CARTUJA'93, WHERE NEW TRAILS TO THE FUTURE WILL BE BLAZED.

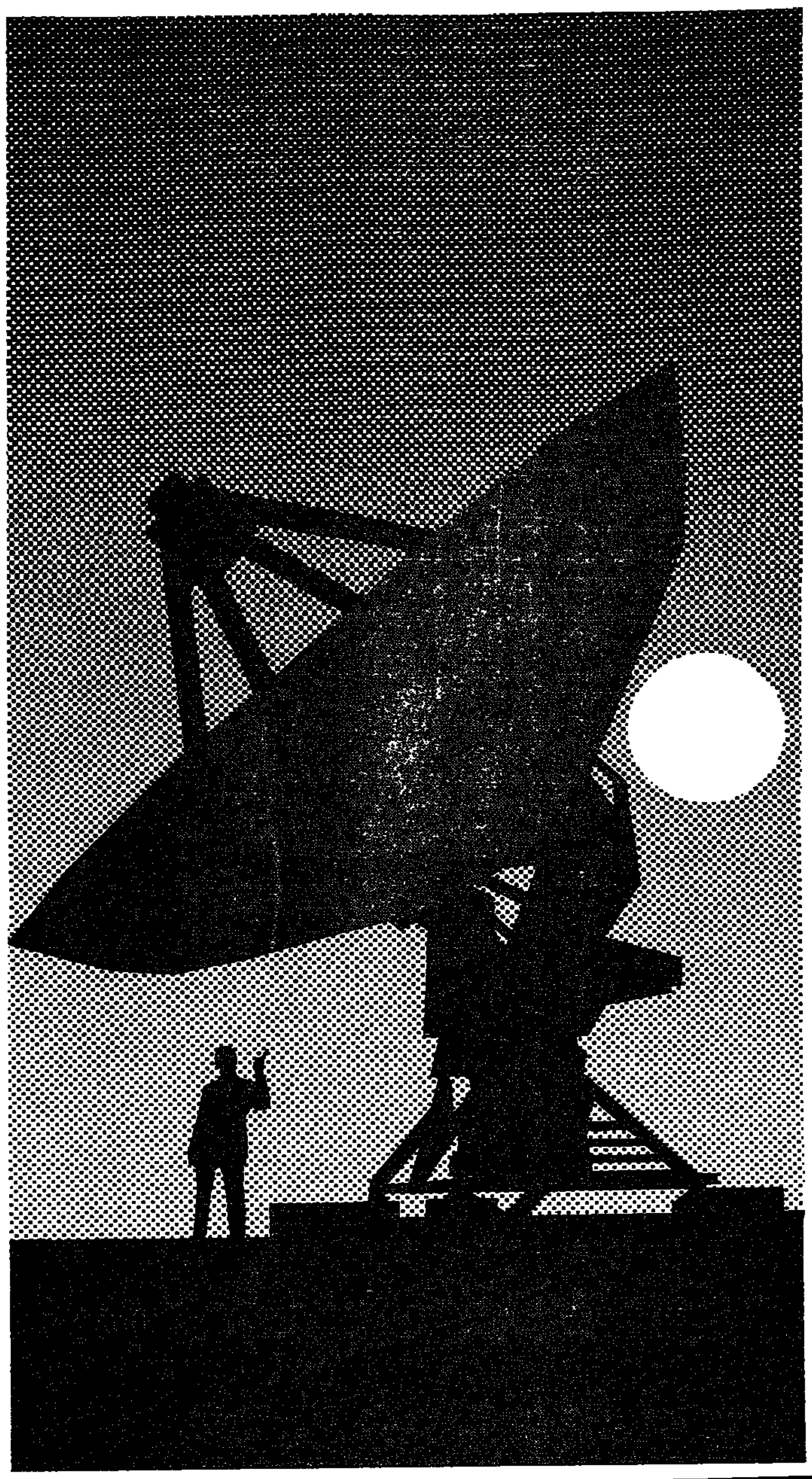
IN THE BASIC AUTOMATION SECTOR, FORD AND GENERAL MOTORS ARE MAKING INNOVATING EFFORTS IN CADIZ, AS IS SUZUKI-SANTANA IN LINARES. IN THE AERONAUTICS SECTOR, THERE IS HIGH TECH AT C.A.S.A. OR INVERISA.

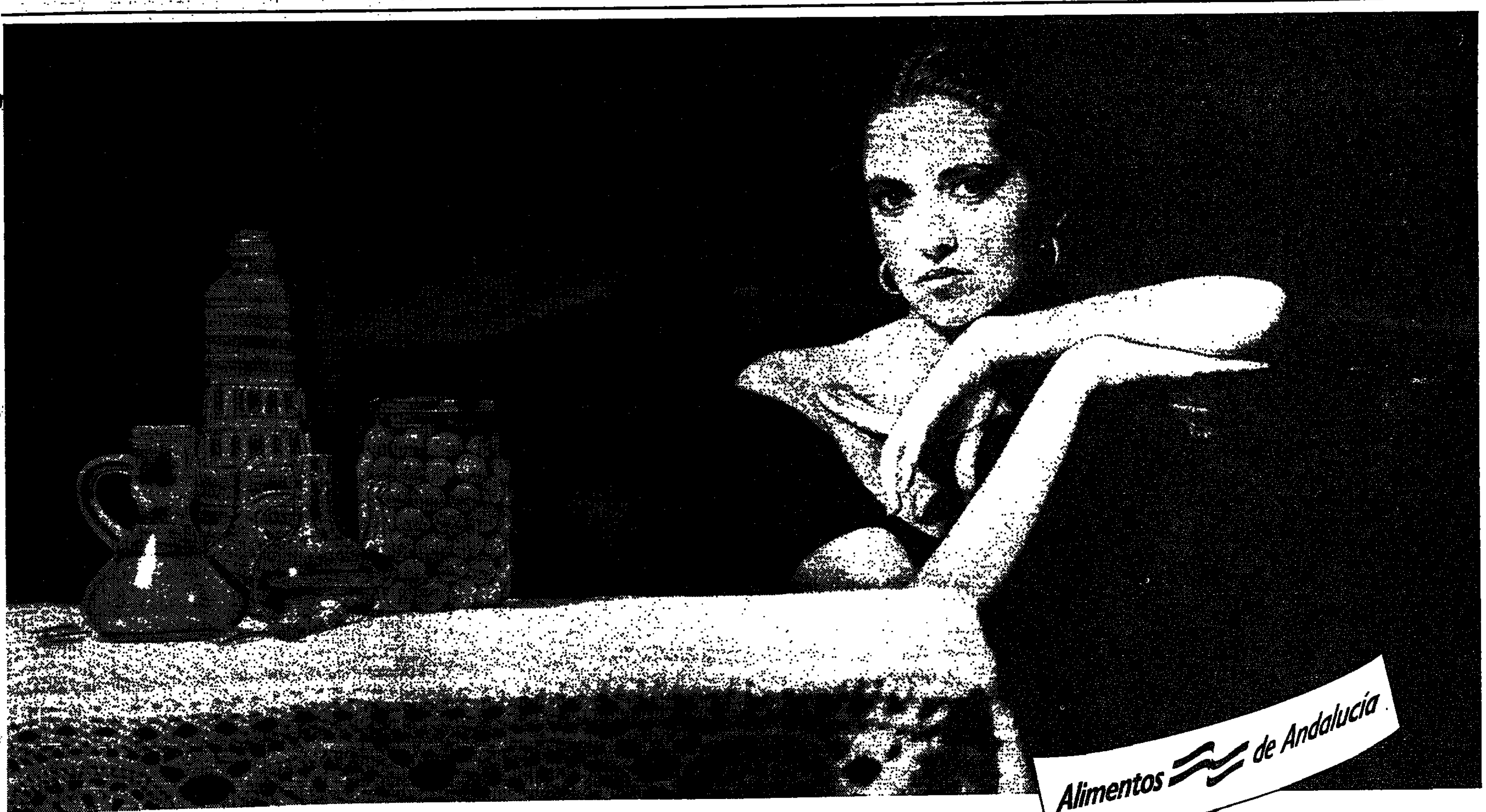
AS FOR RECOVERING ALTERNATIVE ENERGIES, THERE IS THE HISPANO-GERMAN PROJECT "ASTERIX", WHICH WILL USE SOLAR ENERGY TO BREAK METHANE DOWN TO HYDROGEN AND SYNTHESIZED GAS ON THE TABERNAS SOLAR PLATFORM IN ALMERIA. AND ON THE STRAIT, TARIFA'S EOLIC ENERGY PLANT IS INCREASINGLY POWERFUL.

ESAMAT WILL CAPSULIZE "SPACE CHIPS" AT ANDALUSIA'S TECHNOLOGICAL PARK IN MALAGA. AND THE EUROPEAN SPACE AGENCY (ESA) IS STUDYING POSSIBILITIES FOR LOCATING ITS NEW SPACE LAB CELS IN SEVILLE. THERE ARE ONLY TWO OF THIS "LIFE SUPPORT SYSTEM" TYPE LABORATORY IN THE WORLD.

EXPANSA/SEVILLA

JUNTA DE ANDALUCIA
Consejería de Economía y Hacienda





Artful Produce of Andalucía

Little ones... green or black, soft skinned, of gentle aroma and rich flavour at table. They spill out springs of green and gold, to become pure virgin olive oil...of characteristically fruited flavour. Andalucia is the primary olive producing region of Spain. 20% of the world's olive oil is made here. "Baena" of Cordoba, and "Sierra de Segura", "Cazorla", and "Las Villas" from Jaén: these denominations of origin assure the authenticity of the products. And this symbol of quality guarantees their purity:

Alimentos de Andalucía
de arte!

JUNTA DE ANDALUCIA
Consejería de Agricultura y Pesca

ANDALUCIA 4

Malaga sees itself as the hub of a new California, writes **Tom Burns**

High-tech among the hotels

MALAGA mayor Mr Pedro Aparicio is fond of saying that in Malaga province people are already living in the "authentic United States of Europe". He says this because more than 100,000 foreigners, the majority of them European and most of these British, are legally resident in the area. Perhaps twice as many again Europeans spend several months of the year on Malaga's Costa del Sol.

Like Florida in the US, Malaga and the concrete wall of hotels and apartments that stretches down from it to Gibraltar are the old continent's retirement zone and its winter bolt hole. Lately Mr Aparicio has begun talking about the California model as well.

The mayor's latest pride and joy is a 415 acre Technology Park on the city's outskirts that will be completed in the first quarter of next year following investment totalling Pta4.2bn. Already the European division of Hughes Microelectronics, part of the General Motors group, has announced a close on Pta8bn investment to produce microelectronic components at the Park.

No longer a sunny focus for shady people, Malaga is selling itself as Southern Europe's high tech boom town. The fifth largest metropolitan area in Spain and home to the third largest domestic airport, Malaga claims to be the fastest growing city below the Madrid-Rome axis.

Along with the Tech Park, which is called the IDEA Park (a fortunate acronym that stands for Investigacion y Desarrollo (R&D) de Andalucia), Malaga offers graduates, an international environment and, naturally, lots of sunshine and lots of golf.

The city's university has opened a computer science faculty and a telecommunications one alongside its established engineering and business studies school. Mr Aparicio foresees 2,500 high tech personnel, a good proportion of them locally trained, working on the park by the year 2,000. The children of ex-pats on the Costa are also likely candidates for the IDEA project as are newly arrived foreigners.

"The park has its own golf course and there are 19 others within half an hour's drive," Malaga's mayor says as he warms to his sales pitch.

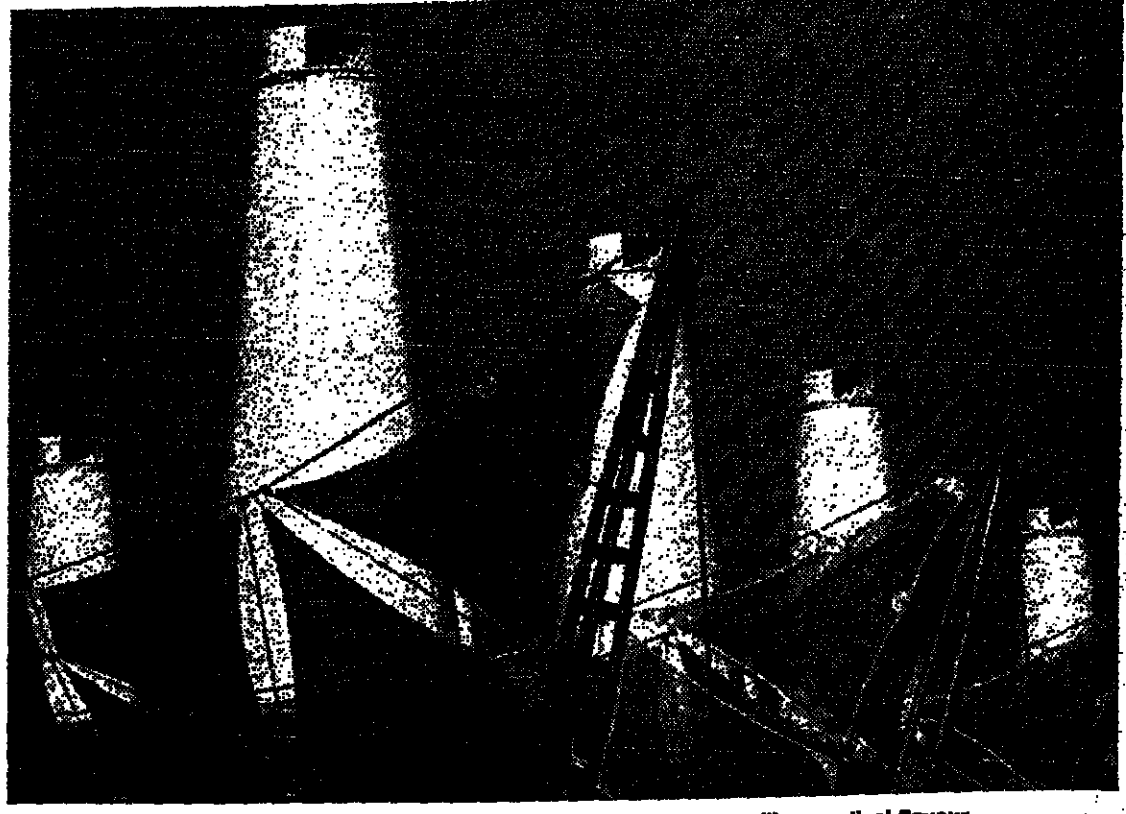
Other inducements include subsidies and incentives that cover 100 per cent of all training expenses and as much as 50 per cent of the total investment by a company in the park given that Malaga is an area designated by the EC and by the regional Andalucian government as a priority development zone.

The Hughes investment was an early break for the project but the follow-up has been disappointing. IDEA had hoped to attract four more multinational projects before the end of this year but none has so far come forward.

"We are in no hurry to fill the park," says Mr Aparicio bravely. He insists that IDEA must have the "right" kind of occupants, those that deal with telecommunications, microelectronics, industrial and office automation, information technology, lasers, new materials, renewable energies and biotechnology. It is, of course, the shopping list of all such parks.

Unfortunately the national and regional authorities do not appear to be in a particular hurry either when it comes to improving Malaga's horrific land communications. The city and its province have been the cinderella of the massive road building party that Andalucia has been celebrating. A dual carriageway linking Malaga to the brand new Seville-Granada highway will not be completed before the middle of next year and a much needed motorway, inland from the Costa, remains a planning pipe dream.

At least accommodation in the area is going for a song as the Costa struggles to recover from a two year long real estate slump. But that is hardly the zippy image that Malaga wants to project.



The EC nations' pavilion at the Seville Expo '92 site: futuristic architecture with a nautical flavour

Profile: president Chaves

Pro-consul in the south

MANUEL CHAVES Gonzalez oozes politics. One of the best things that ever happened to him was being removed from his position as minister of labour and social security in the Spanish Government to be the socialist candidate for the presidency of Andalucia in the summer of 1989.

The socialists losing Andalucia is about as unlikely as Halley's Comet making an unscheduled appearance and Mr Chaves looks jolly comfortable surrounded by the trappings of power in the cool Moorish complex he occupies in the centre of Seville.

"Being a minister was a little like being a manager," he says happily. "This job involves much more politics."

How he got to Seville says a lot about him. His predecessor, an avuncular, nice and popular man locally, had made a fatal mistake and begun to take his job too seriously for the liking of prime minister Felipe Gonzalez in Madrid. That is, he had begun to represent Andalucia rather than represent the central socialist government in the region.

Any national government in Madrid has enough problems trying to rein in the nationalistic demands of the Basques and Catalans. No-one, not even a socialist, pressing Andalucian demands on Madrid ahead of other autonomous regions was going to last long.

Manuel Chaves: regional boss with a national view

After a long divorce between the predecessor and Madrid, Chaves was packed off to Seville, a place he knows well. Although born in the North African enclave of Ceuta in 1945 he is a "naturalised" Andalucian. Like prime minister Gonzalez, Chaves had studied labour law at Seville university and even worked there as a professor.

The job description was straightforward: keep quiet, and keep Andalucia quiet.

Normally, that would be easier said than done. Andalucia likes its politics loud and colourful. Indeed, the socialist party in Seville has been publicly tearing itself apart since losing the municipal election there last May to a conservative coalition. But local politics is not Chaves' remit.

The larger, regional picture, has quickly calmed down under Chaves. When he took over, for instance, it seemed the entire European wildlife establishment was at Andalucia's throat for its careless treatment of the huge Donana national park near Huelva. The European Community was threatening legal action and emotional protests against plans to build a holiday centre nearby had thrown an uncomfortable spotlight on Andalucia.

Chaves, going back to basics, did the obvious thing. He appointed an international commission to find ways of saving the park and allowing humans to live profitably around it. End of protests and, even better, the commission will have taken about two years to do its work when it finishes next March.

Perhaps an even more eloquent salute to his taming abilities has been the deafening silence which has greeted his government's abandonment of one of its most precious policies – an attempt at land reform which penalised large landowners who under-utilised their farms (using them for hunting instead) by expropriation. The expropriated land would then be given to co-operatives to work and the vast agricultural population of Andalucia would once again find jobs and fulfilment.

This, of course, conflicts with EC policy. The Community is trying to stop people farming and in the last few weeks the policy has been not so much dropped as gently manoeuvred under the carpet.

It takes something to get away with that and Mr Gonzalez must be well pleased with his choice. Chaves is not only a team player. He has turned out to be a very good one.

Peter Bruce

Profile: mayor Rojas-Marcos

The maverick of Seville

ALEJANDRO Rojas-Marcos was briefly city councillor of Seville at the age of 25 in 1966 and he became the city's mayor last June. The Franco regime, 25 years ago, stripped him of office and packed him to internal exile. Today's ruling Socialist party, which is no less opposed to his maverick politics, would dearly love to shut him up too.

Slightly built and abundantly gifted with charm, passionate convictions and energy, Mr Rojas-Marcos was seen by Francoists as an opportunistic traitor. The present Socialist establishment subscribes to the same view. He is as irritating an embarrassment to democracy's powerbrokers as he was to the dictatorship's.

Born into a landowning aristocratic family, he let the side down as a youthful city councillor when he began to air leftist opinions. Now, at the head of the Partido Andalucista (it used to be the Partido Socialista de Andalucia), he is the turncoat who has upstaged the Socialists on their own stamping ground. Following last Spring's municipal elections Mr Rojas-Marcos' regional party joined forces with the conservatives to eject the Socialists from the city hall.

The alliance with Seville's right wing prompted charges of betrayal within the Partido Andalucista as well. The party's other charismatic personality, Mr Pedro Pacheco, the mayor of Jerez, a man who boasts about his humble origins and revels in attacking local landowners, resigned as the party's chairman in disgust.

Earlier this month Mr Rojas-Marcos' polished rhetoric won over hostile Pacheco supporters at the party's congress and restored a semblance of unity. Putting his nominees in control of the *andalucistas*, he remained their honorary president as befitted his status of the party's founding father. "My business is being mayor," he says.

That is only partly true. Seville's mayor is also a member of the Madrid congress and is the most effective political critic to date of administrative corruption. Patrician and populist by turns, he had made considerable mileage out of influence-peddling scandals that have bedevilled leading Andalucian socialists.

Rojas-Marcos: a thorn in the side of the government

His goal, with his narrowly focused "Andalucia first" localism, is to unseat the Socialists from the regional government. He talks about educating southern voters into "thinking Andalucian". Should he succeed he will have blasted away the main support base of Seville-born Prime Minister Mr Felipe Gonzalez.

But Mr Rojas-Marcos clearly adores being mayor and there is a proprietorial manner about him when he shows off the Velazquez, Murillo and Pacheco canvases that adorn Seville's city council. Seville society, he says, with immense satisfaction, is "baroque".

Being "baroque" the *sevillanos*, he explains, are sticklers for form and for a specific way of doing things. The Madrid government rode roughshod over such rarefied sentiments when it slapped down Expo '92 in the middle of the Guadalquivir river; "it was offensive," says Mr Rojas-Marcos.

In the past six months the mayor claims to have reconciled Seville to the Exposition. He has established "fluid relationships" with the "outsiders" that are running it and has organised an open day that brought a staggering number – 170,000, or one in five of the Seville's population, according to Rojas-Marcos – on to Expo's island site. Mr Rojas-Marcos noted that the locals spent their time singing, handclapping and dancing flamenco. "I want to take advantage of the incredible infrastructure Seville now has and of its (Expo) image," he says. He could not have obtained his power base at a better time.

Tom Burns

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